

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PROCESS USED TO SEPARATE MILITARY PERSONNEL
FROM ACTIVE SERVICE**

Report No. 95-059

December 19, 1994

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Acronyms

DDMS	Defense Debt Management System
DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
IG	Inspector General
JSS	Joint Service Software
SSB	Special Separation Benefit
VSI	Voluntary Separation Incentive



INSPECTOR GENERAL
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December 19, 1994

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
COMMANDANT, U.S. MARINE CORPS
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
DEPUTY CHIEF OF STAFF FOR PERSONNEL,
DEPARTMENT OF THE AIR FORCE
AUDITOR GENERAL OF THE ARMY

SUBJECT: Audit Report on Process Used to Separate Military Personnel from Active Duty (Report No. 95-059)

We are providing this final report for your review and comments. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Under Secretary of Defense (Comptroller); the Commandant, U.S. Marine Corps; the Director, Defense Finance and Accounting Service; the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs); and the Assistant Deputy Chief of Staff for Personnel, Department of the Army, are requested to provide final comments on the unresolved recommendations and monetary benefits by February 20, 1995. See the "Response Requirements for Recommendations" chart at the end of each finding for the specific requirements for your comments. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that the comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I of this report.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Terrence P. Piket, Project Manager, at (317) 542-3846 (DSN 699-3846). The distribution of this report is listed in Appendix F. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 95-059
(Project No. 3FI-0044)

December 19, 1994

PROCESS USED TO SEPARATE MILITARY PERSONNEL FROM ACTIVE DUTY

EXECUTIVE SUMMARY

Introduction. The Defense Finance and Accounting Service (DFAS) debt for out-of-service accounts grew from \$206.3 million in June 1991 to \$303.8 million in April 1993. About 67 percent of out-of-service debt is uncollectable. This debt is caused when military personnel separate from active duty while owing money to the Government. As a result of statutory reductions in active forces, the number of separations is projected to increase by an additional 100,000 Service members each year through FY 1995. Based on the size of the debt in the out-of-service accounts, DFAS implemented a standard debt management system that improved visibility over the debts, but did not affect separation processing.

Objectives. The objectives of the audit were to determine why the debts were being incurred at separation, what could be done to eliminate or avoid them, and whether the internal controls over the separation process were adequate.

Audit Results. Excessive debts were incurred at separation because of inaccurate and incomplete calculation of pay; late notification of pending separations that resulted in the continuation of pay after separation; the existence of prior debts that exceeded the pay and entitlements earned during the month of separation; and early separations caused by the downsizing of U.S. military forces. At the sites audited, \$248,000 (45 percent) of the \$553,000 in valid debts could be prevented if DFAS and the Service-operated finance and personnel activities improved their procedures for processing separations. Our specific findings follow.

o Air Force finance and personnel activities did an excellent job of ensuring that personnel who separated were not in debt. However, other Services were not as successful in this area. Specifically, personnel separating with debts ranged from 17 to 34 percent of total separations in the Army, Navy, and Marine Corps. Finance activities did not adequately manage the separation process. Numerous mathematical errors were made on separation worksheets, and deductions for unearned bonuses, allotments, and mid- or end-of-month payments were omitted. Duplicate payments were made. Also, Army finance personnel did not enter separation transactions until on or after the separation date. As a result, payments continued after separation, separation calculations did not include key items, and DFAS had to attempt to recoup separation debts (Finding A).

o Unit commanders and personnel activities that have input during the separation process were not notifying the finance activities of pending separations in a timely manner. Also, they were not promptly providing finance activities with information on leave and other matters affecting pay. Consequently, the finance activities did not stop payments already in process, or were prevented from using available pay and entitlements to offset debts (Finding B).

o Debts at two DFAS Centers were not transferred promptly from the payroll systems to the debt system, and debts at another DFAS Center were not validated before being transferred to the debt system. The debt letters mailed to former Service members did not clearly explain the debts. As a result, debt collection did not begin for up to 11 months after Service members separated, the debt system contained invalid debts, unnecessary debt letters were issued, and debt letters generated additional work when former Service members requested more specific information (Finding C).

Internal Management Controls. Internal controls were not adequate for stopping pay after separation; avoiding duplicate payments; making accurate and complete calculations of pay at separation (Finding A); notifying finance activities of short-notice releases and early releases promptly, or routine releases 90 days in advance (Finding B); and transferring only valid debts to the debt system (Finding C). Part I discusses the internal controls reviewed.

Potential Benefits of Audit. Implementation of the recommendations will reduce the number of Service members who separate with debts. At the 11 sites audited, we estimated monetary benefits to be as much as \$5.9 million of debts that could be avoided over a 6-year period. This amount will increase significantly if the Services improve procedures at all sites where military personnel are separated. Also, operating costs at one DFAS Center could be reduced by at least \$403,000 during a 6-year period. This amount would also be significantly greater if avoidable debts at separation were reduced. See Appendix D for a summary of monetary and other benefits associated with the audit.

Summary of Recommendations. We recommended that the finance activities enter separation transactions as soon as a pending separation is known; enforce controls over payments; review separation worksheets for accuracy and completeness; and withhold contingency deductions in specific situations. We also recommended that personnel activities promptly notify finance offices of pending separations; that the Director, DFAS, improve the separation checklist; and that the DFAS Centers review debts for validity before transferring them to the Defense Debt Management System. We also redirected a recommendation to the Under Secretary of Defense (Comptroller) to reduce the goal from 15 to 5 percent of separating Service members owing the Government money.

Management Comments. The Commandant, U.S. Marine Corps; the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs); the Assistant Deputy Chief of Staff for Personnel, Department of the Army; and the Director of Personnel Operations, Headquarters, Air Force Military Personnel Center, Department of the Air Force, generally concurred with the findings and recommendations. The Deputy Director for Finance, DFAS, concurred with most of our findings and recommendations. However, he did not agree to withhold contingency deductions at the time of separation to offset potential calculation errors. We agreed to defer a decision on contingency withholding until the impact of this corrective action is apparent. The Deputy Director also disagreed in part with the potential monetary benefits. A full discussion of management's comments and audit responses is in Part II, and the complete text of management's comments is in Part IV of this report. We request that the Deputy Director for Finance, DFAS, reconsider his nonconcurrences, and that all addressees respond to the final report by February 20, 1995.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Introduction

Background

The total Defense Finance and Accounting Service (DFAS) debt for out-of-service accounts increased from \$206.3 million as of June 30, 1991, to \$303.8 million as of April 30, 1993. Additional debts of more than \$80 million for Operations Desert Shield and Desert Storm were canceled, and thus were not a part of the DFAS debt. DFAS management was concerned about the large amount of debt and made a separate debt avoidance study in calendar year 1991. The DFAS study, which is independent of our audit work and this report, concluded that about \$21 million of \$39 million in debts incurred annually could be avoided. The DFAS study addressed several areas, and stated that DoD could avoid \$5.7 million of \$8.2 million in costs related to unearned reenlistment bonuses. The study also concluded that other debt avoidance was possible in the areas of separation payments and early releases from active duty. However, the study did not include estimates for debt avoidance in those areas. On nine recommendations concerned with debt avoidance, DFAS requested support from the Assistant Secretary of Defense (Force Management). The study made five recommendations on reenlistment bonuses and one recommendation in each of the following areas: early release from active duty enlistment, travel, field performance reports, and Reserve Component bonuses. Five recommendations were closed without action, two recommendations were referred from the Assistant Secretary of Defense (Force Management) to other organizations, and two recommendations remained open.

This audit originated with observations made during two previous Inspector General (IG), DoD, audits. The results of those audits were issued in "Voluntary Separation Incentive and Special Separation Benefit Bonuses," Report No. 93-122, June 23, 1993, and "Payment Errors Related to Operations Desert Shield and Desert Storm," Report No. 94-023, December 23, 1993. Many debts occurred at the time of separation, and over half of the Service members left owing the Government money. Also, Public Law 101-510, section 401, requires that active duty personnel strengths be reduced by over 300,000 Service members before September 30, 1995. This requirement has increased the number of members who separate from the Services.

Separation pay includes payment for unused accrued leave, payment for the last month or appropriate portion of the last month of service, and severance pay. A significant portion of the over 300,000 Service members affected by the reduction in strength will be eligible for severance pay. The amount of severance pay is based on the Service member's rank and years of service.

Objectives

The objectives of the audit were to evaluate:

- o the effectiveness of the military separation process and whether separation payments were made without incurring debts,
- o debt management by DFAS, and
- o internal controls over the separation process.

Scope and Methodology

Universe. To obtain a universe of separations for each Service, we visited four DFAS Centers (the DFAS Cleveland Center, DFAS Denver Center, DFAS Indianapolis Center, and DFAS Kansas City Center) that perform military pay functions. The universe consisted of 18,862 active duty military personnel who were identified as being indebted to the Government. During January, February, and March 1993, these personnel had either separated from 1 of 756 sites worldwide, or the DFAS Kansas City Center had reviewed their final separation vouchers.

Site Selection. We judgmentally selected 11 field sites for audit, based on factors such as the number of debts reported, compared to the number of individuals separating at those sites; the average amount of debt recorded; and the percentage or number of debts over \$250. We reviewed the pay accounts and associated records of 630 former Service members who had separated from 3 Army sites, 4 Navy sites, 2 Air Force sites, and 2 Marine Corps sites, and who were identified as owing the Government a total of about \$1.9 million.

Review Methods Used. We analyzed the validity of debts occurring at separation, and the separation processes used by four Services (the Army, the Navy, the Air Force, and the Marine Corps). At six sites (one Army, three Navy, and two Air Force sites), we reviewed all pay accounts for individuals reported as being in debt. At the other five sites, the accounts were selectively reviewed. We verified the date of separation, a key element in separation processing, to the source document; determined the causes of the debts; and determined whether finance or personnel activities could have prevented the debts before forwarding the information to the appropriate DFAS Center. We also reviewed actions that the four DFAS Centers took to process separation debts, and any interaction between the DFAS Centers and the field finance activities in resolving the debts.

Audit Period, Standards, and Locations. This economy and efficiency audit was performed from March 1993 to March 1994 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. We included such tests of internal controls as

Introduction

were considered necessary. Verifying the accuracy of the master military pay file would require a comprehensive audit of the three payroll systems, which was outside the scope of this audit. Therefore, except as stated in this report, we did not assess the reliability of DFAS's computer-processed data. Appendix E lists the organizations we visited or contacted.

Internal Management Controls

We assessed the internal controls used to separate military personnel from active duty. After notification of separation by the personnel activities, the controls used to close the Service member's payroll file upon separation, thereby preventing further changes by field finance activities, were effective. However, we identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal management controls were not adequate for stopping payments after separation, avoiding duplicate payments, and making accurate and complete calculations of pay at separation (Finding A); for notifying finance activities of short-notice releases and early releases promptly, or routine releases 90 days in advance (Finding B); and for transferring only valid debts to the debt system (Finding C). Recommendations A.1., A.2., B.1. through B.3., and C.1. through C.4. will assist in correcting the internal control weaknesses. Our review of the DoD Internal Management Control Program showed that DFAS had identified problems with military pay as a material internal control weakness in its FY 1993 Annual Statement of Assurance. However, indebtedness at separation was not specifically reported as a material weakness by Headquarters, DFAS, or any DoD Component. Because the responsibility for separations is dispersed among more than 700 locations, we could not determine the reason for this. However, the auditors' opinion is that separation activities are not sufficiently aware of the magnitude of the DoD-wide problem. Correcting the internal control weaknesses will result in monetary benefits. Appendix D describes the monetary benefits that the 11 sites we reviewed can achieve if they implement the recommended internal controls. A copy of the final report will be provided to the senior officials responsible for internal controls at Headquarters, DFAS, and the Military Departments.

Prior Audits and Other Reviews

We identified two General Accounting Office (GAO) reports; two IG, DoD, reports; and one Naval Audit Service report related to this audit.

GAO Reports. The GAO issued two related reports.

o The GAO issued a report entitled "Military Downsizing," NSIAD-93-241, OSD Case No. 9486, on September 30, 1993. The review was made at the request of the Chairman of the former Senate Subcommittee on

Manpower and Personnel, Committee on Armed Services. It covered various elements of the National Defense Authorization Act for FY 1991 and the National Defense Authorization Act for FYs 1992 and 1993. The review focused on determining personnel end-strengths for active forces, identifying personnel to be separated under the Voluntary Separation Incentive (VSI) and Special Separation Benefit (SSB) programs, and planning for the establishment of a fund from which the bonuses will be paid. The General Accounting Office concluded that DoD had accomplished a majority of its previously planned reductions in the active duty force, but that further reductions were planned as the result of a recent review of future DoD needs. DoD agreed with the contents of the report, which contained no recommendations.

o A GAO report, "Defense System for Army Military Payroll Is Unreliable," GAO/AIMD-93-32, OSD Case No. 9276-A, September 30, 1993, discussed the Army's military payroll system. Because of lapses in internal controls, DFAS paid some Army personnel who should not have been paid, and did not detect the overpayments. The overpayments occurred because DFAS and Army personnel did not comply with established procedures. DoD partially concurred with the recommendations.

IG, DoD, Reports. The IG, DoD, issued two related reports.

o The IG, DoD, Report No. 94-023, "Payment Errors Related to Operations Desert Shield and Desert Storm," December 23, 1993, observed that debts were created during the separation process. We did not determine the causes of those debts or make recommendations. Instead, we began the present audit.

o The IG, DoD, Memorandum Report No. 93-122, "Voluntary Separation Incentive and Special Separation Benefit Bonuses," June 23, 1993, stated that no material deficiency was identified in the administration of the VSI and SSB bonus programs, but the auditors observed that Army installations had problems with processing separation payments. We did not determine the causes of those problems or make recommendations because our present audit was in progress.

Naval Audit Service Report. The Naval Audit Service issued Report No. 077-N-89, "Navy Processing of Separations and Settlements," July 26, 1989, which stated that the Navy was not adequately calculating separation payments, not adequately pursuing debt collections from separated Service members, and not promptly processing certain pay accounts. All of those deficiencies were repeat findings from a 1983 Naval Audit Service report.

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Part II - Findings and Recommendations

Finding A. Management of the Separation Process

The Defense Finance and Accounting Service (DFAS) and the finance activities of the Services (the Army, the Navy, and the Marine Corps) did not adequately manage the separation process. Service members departed the Service owing the Government money, receiving more separation pay than entitled, and having pay continued after separation. Excessive debts resulted that were costly to collect, and recoupment action often did not result in collection of the debts. Specifically, excessive debts occurred for several reasons.

- o Automated controls, which used the separation date recorded in the pay system to stop payments and allotments during the month of separation, were not effective.
- o Finance activities at Army sites made duplicate separation payments for separating personnel.
- o Two paying offices at a Marine Corps site made payments for the same entitlements during the month of separation.
- o Separation payments were not posted to the master military pay account; as a result, the DFAS Cleveland Center made duplicate payments to separated Navy personnel.

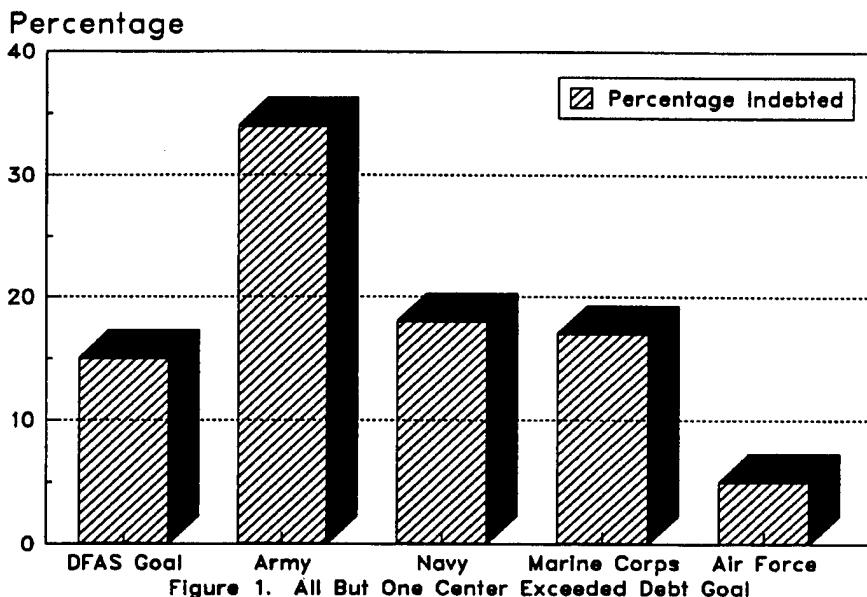
Other debts were incurred at separation because of errors in the use of the separation worksheet, and because the Navy used automated separation worksheets that did not include recoupment for the unearned portion of reenlistment bonuses. Also, final payments were accelerated unnecessarily instead of being made during the monthly pay cycle. Consequently, at the 11 sites audited, separated Service members unnecessarily owed the Government \$248,000 (45 percent) of the \$553,000 in 474 valid debt cases (see Appendix A). DFAS had to take action to recover these debts, which could have been prevented with changes in procedures.

Background

The Services separate active duty personnel at more than 700 sites worldwide. Finance separation activities are responsible for computing separation payments. DFAS has established a goal of having 15 percent or fewer personnel separate

Finding A. Management of the Separation Process

from active duty while owing money to the Government. However, data show that the actual rate of debts created when Army, Navy, and Marine Corps personnel separate is higher than the goal. Figure 1. shows the percentage of total Service members separating from each Service who were reported by the DFAS Centers in March 1993 as owing money to the Government at separation.



Each Service used an automated system to pay its active duty military personnel. The Army and the Air Force used the same system, called Joint Service Software (JSS). The Navy and the Marine Corps paid active duty Service members using Joint Uniform Military Pay Systems that were unique to each Service. The Navy planned to convert to JSS in FY 1995. The Marine Corps had a combined personnel and payroll system and did not plan to convert to JSS.

Each Service had an automated worksheet for computing amounts due and amounts owed at separation. The Army and the Air Force had access to a "what if" statement, which computed a separation payment for a specified future date based on information in the master military pay account. The Navy had an automated separation worksheet, entitled "Forecast Separation Pay Worksheet," which was available at many sites. The worksheet used data in the Service member's master military pay account. Automated worksheets were also available at sites supporting the Marine Corps.

Each Service approached the separation process differently. In the Air Force, about 3 months before separation, the personnel office at the Air Force installation entered the separation transaction. This transaction, through direct interface, entered the master military pay file as well. However, the Army finance separation activities did not enter the separation transaction until shortly

Finding A. Management of the Separation Process

before or after the separation date. The separation transaction was entered directly into the master military pay file. The Navy and Marine Corps operated differently from the Army and Air Force. The DFAS Cleveland Center reviewed the final pay computations for Navy accounts, and the DFAS Kansas City Center reviewed pay computations for Marine Corps accounts.

Controls Over Payments

Automated Controls Not Always Effective. Controls that used the separation date recorded in the pay systems were not always effective for stopping automated payments and allotments. The military payroll systems contained internal controls to stop automatic payments and allotments in the month a Service member was scheduled to separate. For example, if a Service member was scheduled to separate in August, automatic payments and allotments were made in July but not August. Of 630 Service members with debts at 11 sites, 371 (59 percent) separated before their scheduled separation dates. The control to stop automated payments would not work as intended unless the separation date was updated.

For many of the debts we reviewed, the Service member separated months or years before the scheduled separation date. Thus, the new separation date needed to be entered into the payroll system in order for the controls to stop unwarranted payments and allotments. However, changing the separation date was not a priority. Payments or allotments continued after separation in 158 of 630 cases. The breakdown in controls was particularly serious for the Army; 103 of the 158 cases were Army accounts.

Army Separations. The separation dates for active Army personnel were not updated in a timely manner. At the Army sites, many debts were incurred because the separation date was not changed until on or after the day the Service member separated from the Army. As a result, when pay at separation was computed, many automatic payments and allotments had already been electronically sent to financial institutions, or the deadlines for stopping the payments or allotments had passed. At the 3 Army sites, 103 (35 percent) of 291 debts were caused when personnel were paid prior to separation without regard to the normal semimonthly pay cycle, and automatic payments and allotments continued after the separation date. Earlier input of the separation transaction and elimination of advance separation payments would have decreased the number of cases with improper payments.

At 1 Army site, for example, 49 of the 117 debts we reviewed were caused when automatic payments were allowed to continue after the Service members separated. Analysis showed that in 41 of the 49 cases, the separation transaction was entered into the pay system by Army military pay clerks on or after the separation date. Since the pay system was not updated, automatic payments were not stopped. The debts caused by automatic payments totaled \$34,000 for the 41 Service members. Personnel who calculated the separation payments relied on the automated system, and assumed that the automatic

Finding A. Management of the Separation Process

payments would be stopped. Therefore, finance personnel did not include the automatic payments when computing the separation payments.

Notification. One reason the automated controls did not work was that the finance separation activities were not notified promptly when Service members separated before their scheduled separation dates. As stated previously, in 371 (59 percent) of 630 debt cases, the Service member separated before the scheduled separation date. Finding B discusses this situation in more detail, and contains tables showing the early release and short-notice release debt cases. Finding B also describes our analysis at 5 sites; we concluded that for 51 (47 percent) of 109 early release cases, at least 14 days elapsed between the dates of separation orders and the dates the finance activities were notified. Unit commanders and personnel activities need to inform finance activities of changes in separation dates so that the payroll system can be updated as soon as possible after separation dates have changed.

Duplicate Payments Need to be Prevented. Debts were created because duplicate payments were erroneously made at the time of separation or after separation. Appendix B shows the debt cases and sites where we found duplicate payments.

Local Payments. At two Army sites, duplicate payments had been made to separating Service members, creating debts to the Government. Duplicate payments for as much as \$11,021 were established for five Service members. Procedures existed for controlling payments, but the procedures were not followed.

Concurrent Payments. At a Marine Corps site, local commanders authorized the finance office to issue paychecks for entitlements earned in the month of separation. At the same time, Marine Corps finance personnel at the base finance activity for separation processing were computing separation payments that included entitlements for the same time period. The local commanders were not informing the Marine Corps finance activity of the authorizations for regular entitlements (paychecks) so that separation payments could be adjusted. Twelve debts totaling \$6,761 were created when separating Service members received the same entitlements twice.

Posting of Navy Payments. Debts at one of the Navy sites were created because separation payments were not promptly posted to the pay accounts. After a Service member separated from the Navy, personnel at the DFAS Cleveland Center reviewed the pay account to determine whether the member should have received additional payments or had been overpaid. Overpayments were referred for debt collection. Four debts totaling \$2,130 were created when the DFAS Cleveland Center made additional payments, believing that the Service members had been underpaid. However, in each case, the Navy disbursing office had not provided the payment data to the DFAS Cleveland Center for posting to the pay account, or the DFAS Cleveland Center had not entered the data into the pay account. In one case, the Navy disbursing office had made a separation payment, but the payment was not posted to the Service member's pay account until 17 weeks later.

Finding A. Management of the Separation Process

Separation Worksheets

Appendix C summarizes the most frequent causes of debts at the 11 sites. Many of the debts were caused by the incorrect use of separation worksheets. Both manually-prepared and automated separation worksheets contained errors that resulted in overpayments to separating Service members. We analyzed 630 debts that were created during the separation process; 125 (20 percent) of these debts were directly traceable to errors on separation worksheets. The following table shows the most frequent errors.

Table 1. Errors in Separation Worksheets by Service

<u>Type of Error</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Marine Corps</u>	<u>Totals</u>
Miscalculation	6	28	4	3	41
Taxes	10	8	5	11	34
Lump-Sum Leave	<u>33</u>	<u>6</u>	<u>7</u>	<u>4</u>	<u>50</u>
Total Errors	49	42	16	18	125

Worksheet Errors. The errors were made for a variety of reasons and affected different areas.

Miscalculations. Calculation errors resulted when personnel at the finance activities used an incorrect number of days or an incorrect rate to calculate an entitlement. In other cases, personnel had added incorrectly.

Taxes. Finance activity personnel made errors in the amounts withheld for state income taxes when computing separation pay.

Lump-Sum Leave. Lump-sum leave was overpaid when finance activities computed separation payments. The overstatements occurred when personnel did not post leave documents to the pay account before a Service member separated.

Use of the Automated Worksheet. Each Service had an automated worksheet that could be used to compute separation payments. Using the automated worksheet would virtually eliminate mathematical errors. The automated estimates of separation payments could also be compared to the amounts manually computed by the finance activities. Personnel at the finance activities told us that in some cases, they did not have access to the automated worksheets because the separating members had recently transferred to the installation. At one Navy location, the automated worksheet was not available during January through March 1993 (the period of separations we reviewed) because the needed equipment had not been installed at that time. The equipment has since been installed, and Navy personnel are using the automated worksheet. Use of the automated worksheet should improve the accuracy of separation payments. The Army did not always use the automated "what if" statement available from the

Finding A. Management of the Separation Process

payroll system because the original separation date had passed and had not been updated. The "what if" statement can be used only with a future separation date. The Navy was making the Forecast Separation Pay Worksheet available to all separation activities, and other recommendations in this report will make the "what if" statement more readily available to Army finance activities. Therefore, we are not making a recommendation on increasing the use of automated worksheets.

Completeness of Worksheets. The Navy's Forecast Separation Pay Worksheet did not include a deduction for the unearned portion of the reenlistment bonus. For five of the cases we reviewed, the finance activity deducted the unearned portion of the bonus, although the automated worksheet did not include a specific line for the deduction. However, in 17 other cases, the finance activity either did not deduct the unearned portion of the reenlistment bonus or deducted too little. Consequently, the 17 Service members owed the Government a total of \$58,000. The Forecast Separation Pay Worksheet should be changed to include a deduction for the reenlistment bonus when a member does not serve his or her complete reenlistment term. This provision is particularly important as the Services continue to downsize and members separate before serving their full terms.

Debt Reduction

Significance. The cumulative debt for out-of-service accounts was \$303.8 million as of April 30, 1993, and about \$80 million was being added each year. DFAS reports on debt management showed that the collection rate for out-of-service debts was 33 percent. Despite the large and growing debt, this area was not reported as a material control weakness in FY 1993. Because of the high dollar value of debts and the low collection rate, significant actions are warranted.

Debt Avoidance. One sound way to reduce the growing debt and avoid having to collect overpayments is to avoid creating the debts in the first place. The activities involved in the separation process could have prevented about \$248,000 of the \$553,000 valid debts we reviewed. Appendix A summarizes the valid debts and preventable debts. All activities, from the Service member's unit to the supporting DFAS Center, must use every means available to avoid creating debts for separating members. We estimated that \$5.9 million in debts could be avoided at the 11 sites over a 6-year period. As discussed in this finding, internal controls were not adequate to stop payments after separation, avoid duplicate payments, and make accurate and complete calculations of separation payments. Appendix B summarizes the causes of debts. Also, interrupting the normal pay cycle to make final payments before a Service member separates is not in the Government's best interest until the military payroll system can be improved and the number of separations is reduced.

Another approach to reducing the amount of preventable debt would be to deduct for certain types of transactions if the finance activity believes that these

Finding A. Management of the Separation Process

transactions have not been posted to the pay accounts. In the cases reviewed, 95 debts were created when outstanding pay transactions were posted to the pay accounts after separation payments were made to the Service members. As discussed in this finding, some debts occurred when finance activities miscalculated separation payments or omitted deductions. In other cases, unnecessary payments were made after separation. These debts could be avoided if a portion of the separation payment was held in reserve so that outstanding pay transactions could be posted to the pay account.

Debt Goal. The current DFAS goal is too lenient and should be reduced. The Air Force has improved on the DFAS goal of 15 percent of separating members owing the Government money. The Air Force has achieved a 5-percent out-of-service debt rate and has focused DFAS management's attention on this critical area. A goal of 5 percent reflects a more realistic approach to good management of separation debt. If DFAS and the Services accept a 15-percent debt rate, the activities involved in the separation process may ignore instances where debts can be avoided. Lowering the goal would encourage finance and personnel activities to use every opportunity to avoid creating debts for separating Service members. Achieving the more stringent goal would result in monetary benefits to DoD that are not presently quantifiable, but certainly would be significant.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service:

a. Require finance activities to update automated payroll systems as soon as it is known that members are separating from the Service (regardless of whether the separation is being processed) in order to stop automatic payments.

b. Require Army disbursing stations to review their check-writing procedures and enforce the use of internal controls that prevent duplicate payments.

c. Require the Defense Finance and Accounting Service Cleveland Center to verify that unlisted payments have been made before making additional separation payments.

d. Revise the separation worksheet process to include:

(1) Reviewing automated worksheets for entitlements, deductions, bonus recoupments, or payments that may have been omitted.

(2) Reviewing manually-prepared separation worksheets for accuracy and completeness before making payments.

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(3) Expanding the Navy's Forecast Separation Pay Worksheet to include recoupment of unearned reenlistment bonuses.

e. Require finance activities operated by both the Defense Finance and Accounting Service and the Services to:

(1) Include automated payments and allotments for the month of separation as deductions from separation payments, unless it can be verified that the automated payroll system has stopped these payments and allotments.

(2) Make deductions for miscellaneous debts if the separation outprocessing checklist is not used, or if the finance activity is not informed of the pending separation 2 weeks before the separation date.

(3) Include a contingency deduction to offset potential calculation errors if the automated worksheet was not used or a pay-related transaction was not posted to the pay account.

(4) Discontinue interrupting the normal pay cycle to make special separation payments when an activity has excessive separation debts.

Management Comments. The Deputy Director for Finance, DFAS, concurred in part with Recommendations A.1.a. through A.1.d., and stated that DFAS will require its field activities, as soon as they receive notification of a separation action, to update the military pay system to show the correct "expiration of term of enlistment" date or "expiration of obligated service" date for personnel who are separating early. The Deputy Director also stated that at the DFAS Indianapolis Center, information on check disbursements now automatically updates the payroll system. Separation adjudicators at the DFAS Cleveland Center will, if they believe local payments have not been posted, contact the local Navy disbursing office or personnel support detachment where the Service member was separated to confirm that payments were made. Such contacts will not be made routinely. The DFAS Cleveland Center will also remind Navy disbursing offices and personnel support detachments that all disbursements must be reported daily. DFAS policy will also require all separation worksheets to be reviewed for completeness, accuracy, and pay information that may have been omitted. A standard worksheet will be developed that incorporates the best features of existing Service worksheets.

The Deputy Director for Finance, DFAS, nonconcurred with Recommendation A.1.e., stating that the standard operating procedure is to account for any pay or debts known or anticipated at the time the final separation payment is prepared. Finance activities can and should withhold amounts for any anticipated debts. He stated that withholding a standard amount of pay for Service members who have not had their pay calculated by means of an automated worksheet, or who have not used an outprocessing checklist, is not warranted at this time. If future separation debt trends do not reverse, then more drastic actions, to include the audit recommendations, will be considered. For the full text of management's comments, see Part IV.

Finding A. Management of the Separation Process

Audit Response. The comments from the Deputy Director for Finance, DFAS, are responsive for Recommendations A.1.a. through A.1.d., but that office should provide the completion dates of corrective actions taken.

The DFAS comments on Recommendation A.1.e. are partially responsive. To promote fiscal responsibility, reasonable efforts must be made to avoid overpayments to separating Service members. Separation pay clerks assumed that midmonth or end-of-month pay would be stopped. Because this pay was often not stopped, improved controls are needed. We recommended using contingency deductions to offset calculation errors that may occur if the automated worksheet or outprocessing checklist is not used, or a pay-related transaction is not posted to a Service member's pay account. We agree with DFAS that such measures are drastic; however, the current situation is unacceptable.

In response to other recommendations in this report, management concurred with the need to strengthen internal controls over separation pay processing. However, this may not mitigate the need for continuation of the normal pay cycle or to implement withholding at the time of separation. Because the Deputy Director asserts that DFAS will actively monitor the progress achieved in lowering the incidence of separation debts, we are agreeable to deferring a decision on implementing our recommendation or other supplementary action. We will, however, request trend data from DFAS through the IG, DoD, audit followup process on a periodic basis.

In responding to the final report, DFAS should address each part of Recommendation A.1.e., describe the corrective actions that will be taken, and provide completion dates for all actions. We also request that management, in its comments on the final report, address the internal control weaknesses discussed in Part I.

2. We recommend that the Commandant, U.S. Marine Corps, require that information on payments made in the month of separation be provided to the finance separation activity that calculates the separation payment.

Management Comments. The Commandant, U.S. Marine Corps, concurred with Recommendation A.2. and stated that procedures are in place to preclude concurrent payments at separation. The Marine Corps will also request that the DFAS Kansas City Center release a Pay Advisory Notice, reiterating the requirements for audits of master military pay accounts. For the full text of those comments, see Part IV.

Audit Response. The comments on the finding and recommendation are responsive. We request that management provide comments on the final report concerning the internal control weaknesses discussed in Part I.

3. We recommend that the Under Secretary of Defense (Comptroller) reduce the goal of separating Service members owing the Government money from 15 percent to 5 percent, and direct the Defense Finance and Accounting Service to provide monthly progress reports to installations and major commands.

Finding A. Management of the Separation Process

Audit Response. The comments on the finding and recommendation are responsive. We request that management provide comments on the final report concerning the internal control weaknesses discussed in Part I.

3. We recommend that the Under Secretary of Defense (Comptroller) reduce the goal of separating Service members owing the Government money from 15 percent to 5 percent, and direct the Defense Finance and Accounting Service to provide monthly progress reports to installations and major commands.

Management Comments. Recommendation 3. was directed to DFAS in the draft report. The Deputy Director for Finance, DFAS, nonconcurred with Recommendation 3. (formerly Recommendation A.1.f.), stating that DFAS currently reports the percentage of Service members who owe the Government money, but has no control over this function. Each Service is responsible for whether or not its members separate while owing the Government. DoD, not DFAS, should have a goal of reducing from 15 to 5 percent the Service members who owe the Government money at separation. DFAS is responsible for reducing the number of debts incurred after the Service member is separated. For the full text of these comments, see Part IV.

Audit Response. In addition to the reasons discussed in Finding A., we found that Service members also separated owing the Government money because unit commanders and personnel activities did not promptly notify the finance activities of pending separations (see Finding B). Therefore, we agree with the Deputy Director for Finance, DFAS, that the goal should be DoD-wide. Accordingly, we have redirected Recommendation 3. to the Under Secretary of Defense (Comptroller), who should provide comments on the final report.

Management Comments on Monetary Benefits. The Deputy Director for Finance, DFAS, partially concurred with the monetary benefits and stated that the \$5.9 million in monetary benefits should be reduced by 33 percent, which is the average collection rate for out-of-service debt. The Commandant, U.S. Marine Corps, and the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) nonconcurred with the monetary benefits. They stated that the reduction in out-of-service debt does not conform to the definition of savings, and that the monies will eventually be repaid to the Government. See Part IV for the full text of management's comments.

Audit Response Concerning Monetary Benefits. The Commandant, U.S. Marine Corps; the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs); and the Deputy Director for Finance, DFAS, have misinterpreted our estimate of monetary benefits. The recommendations in Findings A and B relate to the avoidance of overpayments made during separation. If these recommendations are implemented, separation debts will not be created, and therefore will not have to be collected. The Services can use the \$5.9 million of erroneous payments to meet other personnel expenses. If debts are created, DFAS must expend resources to collect them, but collects an average of only 33 percent. When collected, these funds normally revert to the U.S. Treasury and are not available for use by the Services. The comment from the Deputy Director for Finance, DFAS, on reducing the benefits by

Finding A. Management of the Separation Process

amounts recovered (less the cost to collect), determines the net benefit to the Government. In our view, avoidance of separation debt results in a potential monetary benefit to DoD regardless of whether recoupment action ultimately proves successful, because DoD has use of the funds. We request that management reconsider its comments concerning the potential monetary benefits.

Response Requirements for Recommendations

Responses to the final report are required from the Under Secretary of Defense (Comptroller); the Commandant, U.S. Marine Corps; and the Director, Defense Finance and Accounting Service, for the items indicated with an "X" in the chart below.

<u>Response Should Cover:</u>					
<u>Number</u>	<u>Addressee</u>	<u>Concur/ Nonconcur</u>	<u>Proposed Actions</u>	<u>Completion Date</u>	<u>Related Issues¹</u>
1.a.	DFAS			X	M, IC
1.b.	DFAS			X	M, IC
1.c.	DFAS			X	M, IC
1.d.	DFAS			X	M, IC
2.	Marine Corps			X	M, IC
3.	USD(C) ²	X	X	X	

¹M = monetary benefits; IC = material internal control weaknesses.

²USD(C) = Under Secretary of Defense (Comptroller).

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities

Unit commanders and personnel activities did not promptly notify the finance activities of pending separations. Also, personnel activities did not send all outstanding transactions to the supporting finance activities for posting in a timely manner. These conditions occurred because:

- o at 5 sites, separation orders for early releases often did not reach the finance activities for at least 14 days,
- o separation orders for short-notice releases generally were not prepared for 7 days or more after legal opinions were issued, and
- o separation outprocessing checklists and clearance records did not contain all necessary payroll information and were not used for all types of discharges.

As a result, Service members received payments after separation, and finance activities could not offset outstanding debts against pay and entitlements earned during the separation month or accumulated and payable at separation.

Background

The separation process begins in the unit to which the Service member is assigned. The unit commander's early involvement is required in order to ensure that all affected activities are informed of correct separation dates, since not all members remain in the Service until their scheduled separation dates. When a Service member leaves before his or her scheduled separation date, promptly notifying the finance activity of early or short-notice release is necessary to prevent or reduce debts owed by the member at separation. Checklists are used prior to separation and can be a means of avoiding debts at the time of separation.

Early Releases. An early release discharge occurs when a Service member is released under honorable conditions before the scheduled separation date. Such releases are for the mutual convenience of the Service member and the Government. Some cases involve monetary incentives such as the SSB, the VSI, and severance pay. Other Service members are released early because of retirement or pregnancy.

Short-Notice Releases. Most short-notice releases involve Service members who are involuntarily released for reasons such as misconduct, drug or alcohol abuse, personality disorders, unsatisfactory performance, or court-martials.

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When a unit commander initiates an involuntary separation, the commander seeks legal counsel as to whether sufficient grounds exist for the action. If the legal opinion is supportive, the commander usually decides to involuntarily separate the Service member from active duty. Personnel activities process these separation cases on receipt from commanders.

Checklists. Separation outprocessing checklists may be initiated by personnel offices or unit commanders; Service members circulate the checklists to the necessary activities prior to separation. The checklists provide a control to ensure that key activities are promptly advised of a Service member's pending separation. The checklist used by the Air Force has space for leave taken and contains a list of pertinent organizations, such as the commissary or housing office. The checklist also has space for recording the amounts of outstanding miscellaneous debts. The checklist requires the signatures of personnel from the listed organizations, indicating knowledge of the pending separation. The checklist must be completed before the personnel activity will release the Service member from active duty. Once the Air Force checklist is completed, it is forwarded to the finance activity.

Notification of Finance Activities

Unit commanders and personnel activities did not promptly notify finance activities that Service members were separating. These failures to report separations created significant problems for the finance activities, since early releases and short-notice releases contributed to 371 (59 percent) of 630 of the debt cases reviewed at the 11 sites. The separating finance activities needed lead time to stop automatic payments (midmonth, end-of-month, and allotment payments) that were in process and could be issued after the Service member separated. Those payments often became debts to the Government. Our analysis showed that of the \$248,000 of preventable debts in our review, \$164,000 (66 percent) occurred because personnel activities did not promptly notify finance activities of separations. Our conclusion was similar to that of the DFAS debt avoidance study done in 1991, which concluded that the personnel activities were contributing to out-of-service debts. As DoD downsizes, commanders and personnel activities should minimize the debts created by early releases and short-notice releases of Service members.

Early Releases. Unit commanders and personnel activities did not promptly inform the finance activities of early releases. We made separate analyses at five sites (two Army and three Navy sites) to determine the time between the date of the separation orders and the date the finance activity was notified. Personnel activities often issued separation orders for early releases 2 weeks before the Service members separated, but did not notify the finance activities until shortly before separation. Therefore, automatic payments could not be stopped in many cases. Table 2. shows the results of our analyses at the

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities

five sites. In 51 (47 percent) of the 109 early release cases, at least 14 days elapsed between the date of the separation orders and the date the finance activity was notified.

Table 2. Elapsed Days Between Separation Orders and Notification of the Finance Activity

<u>Location</u>	<u>Early Release Cases</u>	<u>0 to 5 Days</u>	<u>6 to 13 Days</u>	<u>14 or More Days</u>	<u>Days Unknown</u>
Fort Lewis	27	3	4	9	11
Fort Hood	33	6	3	18	6
San Diego	15	8	3	2	2
<i>USS Enterprise*</i>	16	2	5	8	1
<i>USS Hunley*</i>	<u>18</u>	<u>2</u>	<u>2</u>	<u>14</u>	<u>0</u>
Totals	109	21	17	51	20

*USS: United States Ship

Prompt notification of early releases was important, since early releases accounted for a significant portion of the debts in our review. Table 3. shows the number of debts for Service members who were discharged before their scheduled separation dates.

Table 3. Early Release Debt Cases

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Marines</u>	<u>Total</u>
Total Debt Cases Reviewed	291	142	98	99	630
Number of Early Release Cases for which Debt Was Incurred	69	50	12	6	137
Percentage of Early Release Cases for which Debt Was Incurred	24	35	12	6	22

These early release cases led to overpayments because the finance activities could not update their payroll systems with the new separation dates, which would have allowed the systems to stop automatic payments. Internal controls had been established in the military payroll systems to stop automatic payments and allotments in the month before the Service member's scheduled separation

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities

date. However, those controls were not effective when a Service member separated before the scheduled separation date. At the 11 sites visited, late notification resulted in overpayments of \$86,000 to Service members. With prompt notification, those debts could have been prevented. The \$86,000 represented 35 percent of \$248,000 in preventable separation debts for the 630 cases reviewed.

The Marine Corps and Air Force sites had better controls to ensure that finance activities were promptly notified of early releases. Early releases contributed only 6 percent to the Marine Corps' debt cases, and 12 percent to the Air Force's debt cases. The Air Force's early releases accounted for \$1,700 (0.7 percent), and early releases from the Marine Corps accounted for \$900 (0.4 percent) of the \$248,000 in preventable separation debts.

The Army and Navy sites did not always promptly notify the finance activities of early releases. For example:

- o An Army member separated on March 24, 1993, owing the Government \$270.78. The unit commander signed a memorandum on February 26, 1993, ordering the member to be separated. The separation orders were dated March 3, 1993, and the finance activity was notified of the separation on March 23, 1993. The debt was created because the member received an end-of-month payment for March and owed the Government for excess leave. This debt could have been prevented if the finance activity had been notified in late February, when the unit commander ordered the separation.

- o A Navy member voluntarily separated on January 28, 1993, with a debt of \$1,153.20. The member was paid \$39,251.74 on January 28, 1993. An end-of-month payment of \$1,163.23 (not included in the calculation of the separation payment) was posted to the pay record on January 24, 1993, and a \$10 charitable refund reduced the debt to \$1,153.23. The travel certificate, which authorizes payment of travel costs to a Service member's home of record at time of separation, was prepared on January 21, 1993, allowing only 7 days for notification. This debt could have been prevented if the finance activity had been notified before the monthly payroll cutoff date of January 23, 1993.

Short-Notice Releases. Finance activities were not being notified promptly when involuntary separation actions were taken. Legal opinions that Service members should be released on short notice were sent by legal activities to the unit commanders, who made the decision to involuntarily separate the member. The commander then directed the supporting personnel activity to prepare separation orders and notify the finance activity of the decision to release the member. At one site where legal documents were readily available, we made a separate analysis to determine the length of time from the date of the legal opinion until the date of the separation orders. In 20 out of 31 short-notice releases at this site, at least 7 days elapsed after the legal opinion was issued until orders were prepared.

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Like early releases, short-notice releases accounted for a significant number of debts. Table 4. shows the debt cases reviewed for short-notice releases, and the number and percentage of cases by Service.

Table 4. Short-Notice Release Debt Cases

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Marines</u>	<u>Total</u>
Total Debt Cases Reviewed	291	142	98	99	630
Number of Short-Notice Release Cases for Which Debt Was Incurred	109	43	35	47	234
Percentage of Short-Notice Release Cases for Which Debt Was Incurred	37	30	36	47	37

At the 11 audit sites, 234 short-notice releases occurred, resulting in avoidable debts of \$78,000. These debts occurred because members from all Services continued to receive payments after separation or because pay and entitlements did not offset outstanding debts. For example:

o At an Army site, a Service member separated on February 19, 1993, with a debt of \$482.52. The debt was for an allotment of \$244.98 that was paid in February 1993 but was not included when the separation payment was calculated, and other miscalculations amounting to \$237.54. The finance activity paid the individual \$122.18 at separation. The separation orders were dated February 16, 1993. The master military pay account showed that the separation transaction date was entered into the system on February 22, 1993. That entry was made after the monthly payroll cutoff date; consequently, an automatic paycheck and allotments were paid. If the finance activity had been notified on February 10, 1993, the date the separation was approved, or at the time the separation orders were prepared, the allotment portion of the debt could have been prevented. Also, a portion of the miscalculation (\$190) occurred because the incorrect amount was used for the end-of-month payment. Earlier notification would have prevented this debt.

o At a Navy site, a Service member who separated on January 28, 1993, was indebted to the Government for \$3,175.30. The master military pay account and separation worksheet showed that the member was due \$1,363.97 at separation. The member received a payment for this amount. However, the finance activity did not recoup the member's selective reenlistment bonus when calculating the separation payment. The DFAS Cleveland Center posted the recoupment to the pay record on May 5, 1993, which created a debt of

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\$2,238.89. The member also received an end-of-month payment of \$946.41 on February 1, 1993. A refund of \$10 for an allotment reduced the debt to \$3,175.30. The personnel activity prepared the notice of separation on January 23, 1993, and the Forecast Separation Pay Worksheet was dated January 25, 1993. With prior notice of separation, a separation transaction date could have been entered before the monthly payroll cutoff date for January, preventing the debt for the end-of-month payment.

o At an Air Force site, a Service member separated on February 10, 1993, with a debt of \$226.40. The finance activity did not make a separation payment because it was necessary to recoup the unearned portion of a reenlistment bonus of \$931.58. The personnel activity entered the separation transaction date into the system on January 26, 1993; however, the separation was approved on January 6, 1993. This debt could have been prevented if the personnel activity had entered the separation transaction date when it was approved. If the separation transaction date had been entered earlier, the pay system would have considered the bonus recoupment when calculating the member's pay for January and February 1993.

o At a Marine Corps site, a Service member separated on September 23, 1992, and was indebted to the Government for \$102.51. The personnel activity prepared the separation certificate on September 21, 1992. The finance activity received the separation certificate on September 25, 1992, and pay was stopped on September 28, 1992. However, the member received the September end-of-month payment because the finance activity was not notified in time to stop the direct deposit. This debt could have been prevented if the personnel activity had notified the finance activity on September 21, 1992, the date the separation certificate was prepared.

If the unit commanders and personnel activities had promptly notified the finance activities of short-notice releases, these debts could have been prevented. These debts represented 31 percent of the \$248,000 in preventable separation debts included in our review.

Initiation of Separation Process. Only a small percentage of Service members was separated with debts when the separation process was initiated well in advance of the separation date. Air Force personnel activities held an initial separation meeting with the Service member about 90 days before separation. JSS, the payroll system used to pay Army and Air Force members, was then updated with the new separation date through an interface with the personnel system. This notification allowed JSS to restructure any existing debt before separation and avoid continuation of pay after separation. By using a personnel system with a direct interface to JSS, the Air Force was able to exceed the standard for out-of-service debts. According to the system's monthly reports, the Air Force's out-of-service debt rate was only 5 percent, well within the DFAS standard of 15 percent.

Another way to gauge the effectiveness of initiating the separation process early, with accompanying notification to finance activities, is to examine payments made to Service members after separation. For the Air Force cases reviewed, 6 (6 percent) out of 98 debts resulted when automatic payments continued after

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separation, compared to 9 to 29 percent for the other Services. We discussed outprocessing procedures with the other Services. Although outprocessing was generally started 90 days in advance, the finance activities were not notified until much later. The Services could standardize their separation procedures by authorizing direct interfaces between the payroll systems and personnel activities; this would decrease the out-of-service debt rate. Notifying finance activities well in advance of separation would also decrease the out-of-service debt rate.

Outprocessing of Service Members

Separation Outprocessing Checklists. The Services used separation outprocessing checklists or clearance documents as internal controls to ensure that all outstanding pay-related transactions were included when calculating separation payments. However, the controls were frequently ineffective. Personnel activities did not promptly send all outstanding pay-related transactions, such as debts and leave documents, to finance activities for posting. This allowed Service members to separate with outstanding debts and overpayments for lump-sum leave.

Use of Separation Outprocessing Checklists. The use of separation outprocessing checklists varied among the Services. The Air Force used a checklist that identified all outstanding transactions and pay-related data, but the checklist was not used for all types of discharges. For example, at one of the audit sites, the checklist was not used for retiring Service members. The checklists or clearance documents used by the Army, Navy, and Marine Corps did not contain the pay-related data needed to identify outstanding debts and leave transactions. Therefore, debts such as clearance costs for on-post housing were unrecognized. In some cases, a checklist or clearance document was not used.

Internal Controls to Prevent Debts. The Air Force used separation outprocessing checklists effectively to control the number of miscellaneous debts at separation. Miscellaneous debts occurring at separation represented 95 (15 percent) of 630 of the cases we reviewed. The Air Force checklist required each activity to state whether or not a debt existed and, if one existed, the amount of the debt. This procedure gave the finance activity data on outstanding miscellaneous debts so that appropriate deductions could be made from the separation payment. The effectiveness of the checklist was shown by the Air Force's out-of-service debt rate of 5 percent, which was well within the DFAS goal of 15 percent. The separation outprocessing checklists helped the finance activities determine any outstanding debts and capture leave transactions that had not been posted to Service members' pay accounts. By providing the information needed to compute separation payments, the checklists also helped finance activities that served remote sites.

Service Members' Leave. The commanders and personnel activities did not always post leave in a timely manner or notify the finance activities of leave

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taken. The leave documentation forwarded to finance activities was often incomplete or was not used for all discharges. If leave is not posted to the pay account before separation, Service members may be overpaid for lump-sum leave. Failure to post leave documents before separation accounted for 50 (8 percent) of 630 debts. Table 5. shows the number of lump-sum leave debts by dollar amount for the 630 cases.

Table 5. Lump-Sum Leave Debts by Dollar Amount

Leave Debts	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Marines</u>	<u>Total</u>
\$250 and Over	21	5	2	3	31
Leave Debts Less than \$250	<u>12</u>	<u>1</u>	<u>5</u>	<u>1</u>	<u>19</u>
Total	33	6	7	4	50

Leave debts were often substantial because the debts equaled the daily wage rate multiplied by the number of leave days taken. In the cases reviewed, 31 debts from overpayment of lump-sum leave exceeded \$250 each.

Army. The discharge worksheets used by the Army were not always complete when received by the finance activity. At one Army site, discharge worksheets were not sent to the separating finance activity. These problems resulted in separation debts because leave was not posted before separation. Our review of debts for former Army members showed that 33 (11 percent) of 291 of the debts were due to late posting of leave.

Navy. The Navy sites used various procedures to report leave balances. Two Navy sites forwarded leave balances to the finance activities as part of the separation package. At two other Navy sites, the finance activities used a preprinted form as part of the separation process; Service members completed the dates of unlisted leave. However, Service members often understated the leave they had taken, resulting in overpayments by the separating finance activities. Although the Navy's leave debts were not a significant part of the overall debts in our review, relying on Service members for leave information created the potential for overpayment of leave.

Air Force. The Air Force used a separation outprocessing checklist with space for leave taken within the last 30 days, but the checklist was not used for all types of discharges. For some discharges, instead of the outprocessing checklist, the Air Force used a leave checklist to notify the finance activity of the Service member's leave balance. Our review of debts for former Air Force members showed that 7 (7 percent) of the 98 debts were due to late posting of leave.

Need for a Checklist that Accounts for Leave. We recognize that leave is a difficult area to control, and is more difficult when a Service member is approaching separation because leave plans change frequently. Thus, for

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all discharges, leave must be included on the outprocessing checklist or other documents used at separation. The personnel activities should promptly provide complete leave information to finance activities.

Conclusion

Unit commanders and personnel activities working on separations in isolation of the finance activities has a cost. The ultimate effect is that Service members leave active duty owing the Government money. The magnitude of this separation cost has increased significantly with military downsizing. A major portion of the separation cost occurs because the personnel activities do not promptly notify finance activities of pending separations or changes of separation dates. Another portion of the separation cost occurs at separation because personnel activities and units do not send finance activities all data that affect payments at separation. Unit commanders and personnel activities need to ensure prompt notification and dissemination of data that affect debts, in order to reduce the costs of separation (Service members owing money to the Government).

Recommendations, Management Comments, and Audit Response

- 1. We recommend that the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) and the Assistant Deputy Chief of Staff for Personnel, Department of the Army, revise their administrative procedures to require that separating finance activities be notified of early releases at least 2 weeks before a Service member separates.**

Management Comments. The Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the recommendations and stated that corrective actions are being taken. The Chief of Naval Personnel will direct a complete review of all directives on separation processing, to ensure that our recommendations are incorporated to assist in debt reduction.

The Assistant Deputy Chief of Staff for Personnel, Department of the Army, concurred with Recommendation B.1. and stated that the Army's goal is to process separations for early releases as soon as practicable. For the full text of management's comments, see Part IV.

Audit Response. The comments of the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) are responsive, since the Navy plans to revise its separation directives by June 1995.

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The comments of the Assistant Deputy Chief of Staff for Personnel, Department of the Army, are partially responsive. The Army concurred with the finding and with Recommendation B.1. and stated that its policies and goals agreed with the intent of the recommendations. However, the Army did not describe its plans for corrective actions. At a minimum, the Army needs to enforce its policies and goals. Revising the policies to give specific instructions on early releases would improve the separation process.

We request that the Army, in its comments on the final report, provide us with the corrective action that was taken and the completion date. We also request that the Navy and Army comments discuss the related internal control weaknesses discussed in Part I.

2. We recommend that the Commandant, U.S. Marine Corps; the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs); the Assistant Deputy Chief of Staff for Personnel, Department of the Army; and the Deputy Chief of Staff for Personnel, Department of the Air Force, direct their unit administrative personnel to:

- a. Notify separating finance activities of short-notice releases within 1 workday of a commander's decision.**
- b. Expand outprocessing checklists and clearance records to better identify all outstanding miscellaneous debts (with current dollar balances) and leave transactions for all types of discharges.**
- c. Forward the expanded outprocessing checklists to the separating finance activities.**

Management Comments. The Marine Corps concurred with the intent of our recommendation and stated that procedures are in place for finance activities to be notified on the same day the commander makes a decision to separate a Marine early. Also, an outprocessing checklist is submitted when a Marine separates.

The Navy concurred with the recommendations and stated that corrective actions are being taken.

The Army concurred with Recommendations B.2.a., B.2.b., and B.2.c., and stated that its goal is to issue separation orders as soon as possible after receiving approved requests for separation. The Army will also conduct a review to improve outprocessing checklists.

The Air Force concurred with Recommendations B.2.a. and B.2.c., but nonconcurred with Recommendation B.2.b., stating that the Air Force has only a minor problem with the use of outprocessing checklists. However, the Air Force is taking corrective actions to solve this problem. For the full text of management's comments, see Part IV.

Audit Response. The Commandant, U.S. Marine Corps, is correct in stating that the Marine Corps system allows the finance activity to be notified the same

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities

day the commander makes the decision to separate a Marine early. As our report states, the Marine Corps system was effective at two of the sites we reviewed, where voluntary early releases resulted in debts in only 6 percent of the cases. Therefore, Recommendation B.1. was not addressed to the Marine Corps. However, the system was not effective in short-notice (involuntary) releases (Recommendation B.2.), where 47 percent of the cases had debts. The finance activity was not being notified on the same day the commander made the decision to separate a Marine involuntarily on short notice. At a minimum, the Marine Corps needs to enforce its procedures. Revising the procedures to give specific instructions on short-notice (involuntary) releases would improve the separation process. Also, the outprocessing checklist should be submitted to the finance office before the separation payment is processed. We request that the Marine Corps, in its comments on the final report, provide us with the corrective action that was taken and the completion date. We also request that those comments address the related internal control weaknesses discussed in Part I.

The comments of the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) are responsive, since the Navy plans to revise its separation directives by June 1995.

The comments of the Assistant Deputy Chief of Staff for Personnel, Department of the Army, are partially responsive. The actions on Recommendations B.2.b. and B.2.c. meet the intent of the recommendation. The Army's goal agreed with the intent of Recommendation B.2.a.; however, the Army did not describe its plans for corrective action. At a minimum, the Army needs to enforce its goal. Revising the policies to give specific instructions on short-notice releases would improve the separation process. We request that the Army, in its comments on the final report, provide the corrective action that was taken and the completion date. We also request that those comments address the related internal control weaknesses discussed in Part I.

The comments of the Deputy Chief of Staff for Personnel, Department of the Air Force, are responsive. The Air Force nonconcurred with Recommendation B.2.b., but plans to expand the use of the outprocessing checklists by May 1995. This action meets the intent of our recommendation.

3. We recommend that the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) and the Assistant Deputy Chief Staff for Personnel, Department of the Army, standardize separation procedures by establishing an agreement with the Defense Finance and Accounting Service to authorize direct interfaces between personnel activities and the payroll systems and, where possible, direct the personnel activities to notify the finance activities of separations at least 90 days in advance, on completion of an initial separation interview.

Management Comments. The Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the recommendations and stated that corrective action is being taken. The Navy will coordinate with DFAS on the appropriate method of notifying finance activities of separations.

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities

Where possible, the Navy will comply with the requirement to send notifications 90 days in advance of separation.

The Assistant Deputy Chief of Staff for Personnel, Department of the Army, concurred with Recommendation B.3. and stated that the new personnel system, scheduled for use by FY 1995, will be a much-improved method for notifying DFAS of separations. A pre-separation transaction will be sent electronically to DFAS up to 90 days in advance of separation. The Director, DFAS, also concurred with Recommendation B.3. For the full text of management's comments, see Part IV.

Audit Response. The comments of the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs) are responsive, since the Navy plans to notify DFAS of separations up to 90 days in advance of the separation date.

The comments of the Assistant Deputy Chief of Staff for Personnel, Department of the Army, are partially responsive. By using automated personnel systems to be installed at 28 sites in FY 1995, the Army can notify finance activities of pending separations up to 90 days in advance. This is an acceptable corrective action for Recommendation B.3. However, the Army's comments did not state when the new systems would be installed at other sites. We request that the Army, in its comments on the final report, provide estimated dates for installing the new systems at remaining Army sites. We also request that management, in its comments on the final report, address the internal control weaknesses discussed in Part I.

Response Requirements for Recommendations

Responses to the final report are required from the Commandant, U. S. Marine Corps; the Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs); and the Assistant Deputy Chief of Staff for Personnel, Department of the Army, for the items indicated with an "X" in the chart below.

<u>Response Should Cover:</u>				
<u>Number</u>	<u>Addressee</u>	<u>Proposed Actions</u>	<u>Completion Date</u>	<u>Related Issues*</u>
B.1.	Navy			M, IC
B.1.	Army	X	X	M, IC
B.2.	Marine Corps	X	X	M, IC
B.2.	Navy	X	X	M, IC
B.2.	Army	X	X	M, IC
B.3.	Navy			M, IC
B.3.	Army		X	M, IC

*M = monetary benefits; IC = material internal control weaknesses.

Finding C. Management of Debt Transfer

DFAS personnel were not adequately managing the transfer of debts from the payroll systems to the Defense Debt Management System (DDMS). A review of separation cases at 11 installations showed that about \$1.4 million (72 percent) of the \$1.9 million in debts and 156 (25 percent) of the 630 debt cases identified by the payroll system were invalid (see Appendix A). At two DFAS Centers, debts were not transferred promptly, and at a third center, invalid debts for Army members were transferred to the debt system. Debt letters mailed to former Service members did not correctly explain the causes of the debts. These conditions occurred because:

- o the work load at two DFAS Centers delayed the review of separation cases for debt validity;
- o finance personnel at the installations did not analyze closed accounts to determine the causes of debts and whether the debts were valid;
- o debts at one DFAS Center were not screened for validity before being transferred to the debt system; and
- o automated systems could not determine or adequately explain the causes of debts, and manual intervention was not used to determine the causes.

As a result, the DFAS Cleveland Center and the DFAS Kansas City Center were delayed up to 6 months and 11 months, respectively, in transferring and collecting outstanding debts. Army files transferred to DDMS were inaccurate, and erroneous debt letters were sent to former Service members. Resolving inquiries increased the work load and administrative costs for DFAS. Also, public relations with former Service members and Congress were adversely affected because the debt letters were confusing, and inquiries were ignored or lost.

Background

Each DFAS Center had unique procedures for closing pay accounts after separation. The JSS closed the Air Force master military pay account 20 days after the Service member's separation. Installation personnel used the 20-day period to reconcile out-of-balance accounts and to determine whether an additional payment was due to the Service member or the Service member was indebted to the Government. The Army requested that the JSS be

Finding C. Management of Debt Transfer

modified to allow 40 days for this purpose. The extent of reviews performed at the DFAS Centers varied; as a result, the accounts were handled differently, although all the DFAS Centers used the same debt system.

The procedures used to transfer debts to the debt system differed significantly among the DFAS Centers. The DFAS Cleveland Center and the DFAS Kansas City Center reviewed most pay accounts after account closure. Personnel at these DFAS Centers reviewed out-of-balance accounts and determined whether the Service members had been underpaid or overpaid. This process caused significant delays, both in initiating collection procedures and in making final settlements when payments were due to separated Service members.

The DFAS Denver Center and the DFAS Indianapolis Center systematically transferred debts from the payroll system to the debt system. However, the DFAS Denver Center screened the debts to eliminate known system errors and invalid debts, while the DFAS Indianapolis Center transferred all debts without screening them.

Timeliness of Debt Transfer

The time required by the DFAS Centers to transfer Navy and Marine Corps members' valid separation debts for collection was excessive. Significant delays existed between account closure and transfers of debts for collection. Factors that contributed to delays in transferring debts to the DDMS were late shipments of documents to the DFAS Centers, and large backlogs in the DFAS Centers' reviews of separation packages. As a result, collection procedures were delayed, reducing the likelihood that money due the Government would be collected.

Marine Corps Debts. The DFAS Kansas City Center took over 4 months to begin debt collection procedures for Service members who separated with debts from the Marine Corps. The DFAS Kansas City Center's policies required finance activities to send all separation cases to that Center's separation branch within 3 days of the Service member's separation date. The accounts were validated and any debt cases were to be transferred for debt collection within 60 days. Personnel at the DFAS Kansas City Center's separation branch told us that the average time for receiving cases from the finance activities was about 48 days (45 days longer than required). Also, the DFAS Kansas City Center took about 67 days (7 days longer than required) to review and transfer debts to DDMS.

The Marine Corps separation cases we reviewed were analyzed by the DFAS Kansas City Center's separation branch during January through March 1993. The separation dates for those Service members were between June 1992 and January 1993. Most of the accounts were validated from 4 to 6 months after the Service members separated from the Marine Corps. The backlog in the review process caused delays in the collection of outstanding debts due the government.

Navy Accounts. We also found extensive delays in initiating collections for Navy members' indebtedness. The DFAS Cleveland Center's policy was to transfer all closed pay accounts to its separation branch within 3 days of the member's separation date. The accounts were then reviewed for accuracy, and any debt cases were transferred to DDMS within 90 days. However, personnel at the DFAS Cleveland Center's separation branch told us that the average time for receiving accounts from finance activities was about 45 days (42 days longer than required). Between 70 and 80 days were usually required to perform the reviews and transfer the debts to DDMS for collection. As a result, collection actions were not usually begun until at least 4 months after separation.

The debts we reviewed were accounts of Service members who separated from the Navy from January through March 1993. As late as November 1993, accounts for several former Service members had not been reviewed and transferred. Thus, the DFAS Cleveland Center did not begin collection procedures for those debts until 9 to 11 months after the Service members separated.

Analysis of Separation Accounts

DFAS had no procedures for analyzing closed pay accounts at the local level. Current procedures direct that all closed pay accounts be transferred to the appropriate DFAS Center for review and disposition. This caused significant backlogs at the DFAS Cleveland Center and the DFAS Kansas City Center, where accounts were analyzed for accuracy before being transferred to DDMS.

Finance personnel at the local level told us that they would like the opportunity to analyze their own accounts before transferring the accounts to a DFAS Center. They felt that this would provide a highly effective training tool for their personnel and would expedite the identification and correction of separation errors. By reviewing the closed pay accounts, finance personnel could determine what errors were made and avoid these types of errors in the future. Personnel at several audit sites said that by the time they received feedback from the DFAS Center, the pay accounts had been closed for a significant period of time, and documentation was no longer available at the local level to determine the cause of the debt.

The DFAS Denver Center was the only DFAS Center that provided prompt feedback to the finance activities. JSS provided reports by field site; these reports enabled a small group at DFAS Denver Center to screen separation accounts that included debts in order to determine whether system problems were involved, and to forward the remaining problems to the field sites for research. Reports were sent to finance activities within 2 months of an account's closure. Finance activities were to determine why the debts had occurred. The finance activity was required to report the results of its research to the major command. Those procedures provided finance activities with error trends for training purposes. The other DFAS Centers either did not provide feedback to the finance activities, or provided feedback too late to effectively

Finding C. Management of Debt Transfer

train finance personnel in error trends. The Air Force effectively used a series of feedback reports that had been built into JSS, but the Army did not begin using these reports until January 1994. If finance activities were allowed to analyze their accounts, training for finance personnel would be more effective, backlogs at the DFAS Centers could be reduced, causes of debts could be more accurately determined, and debts could be transferred for collection earlier.

Review of Army Accounts for Validity

The debts of former Army members were transferred to the DDMS before they were screened for validity. A review of 291 pay accounts showed that former Army members who separated during January through March 1993 owed about \$994,000. Several of the debt cases we reviewed consisted of more than one debt and included both valid and invalid debts. We refer to these debt cases as partially valid. Figure 2. shows the validity of the Army accounts reviewed, and Figure 3. shows the amount of valid debt for those accounts.

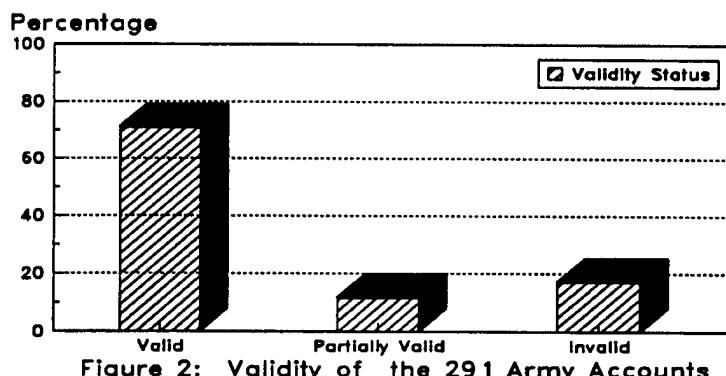


Figure 2: Validity of the 291 Army Accounts

Finding C. Management of Debt Transfer

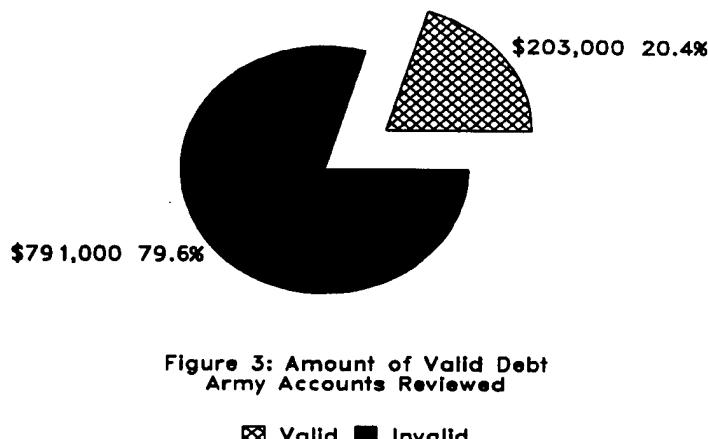
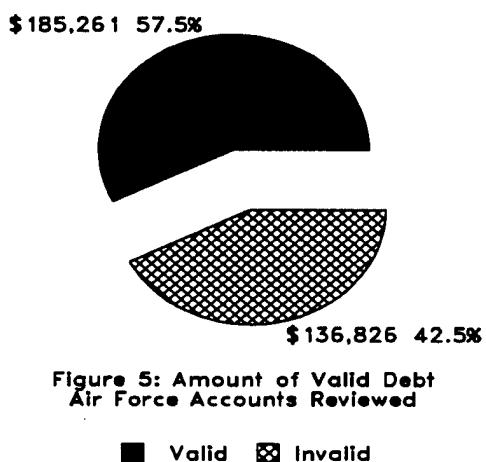
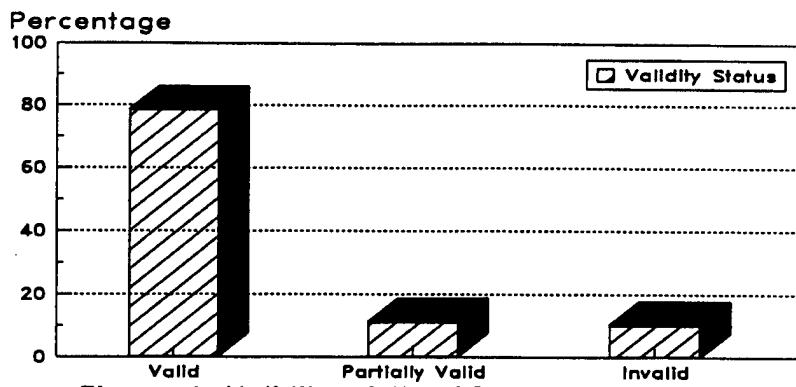


Figure 3: Amount of Valid Debt
Army Accounts Reviewed

The DFAS Indianapolis Center had no procedures to screen indebted accounts before transferring them to the DDMS. For example, 69 invalid debts were caused when readjustment entitlements (a type of separation pay) were not properly posted to the pay accounts. However, the associated separation payment, when posted, included an amount for the authorized entitlement. Since the amount of the entitlement was not posted, the master military pay account showed that the Service member owed the Government a large debt. As a result, invalid debts of \$3,000 to over \$50,000 were established when the accounts were closed. The invalid debts were automatically transferred to the DDMS for collection, and the Service member was sent a collection letter. The DFAS Indianapolis Center began screening debts over \$10,000 for validity in November 1993. Readjustment entitlements that are not posted are readily identifiable, so this type of debt has probably decreased at the DFAS Indianapolis Center.

The other DFAS Centers had similar out-of-balance conditions on the payroll systems at separation, but the DFAS Centers screened the pay accounts and eliminated obvious invalid debts before transferring the debts to the DDMS. The Air Force was using the same payroll system as the Army, but eliminated known errors before transferring debts to the DDMS. Figure 4. shows the validity of the 98 Air Force accounts reviewed, and Figure 5. shows the amounts of valid debt for those accounts.

Finding C. Management of Debt Transfer



As a result, for the accounts in our review, the DFAS Denver Center identified about \$137,000 of invalid debts and did not transfer the debts to the DDMS. If the Army used similar procedures, many invalid debts would not be erroneously transferred to the DDMS, and the time needed to resolve these cases would be

reduced. We estimated that \$403,000 in operating costs at the DFAS Indianapolis Center could be avoided over a 6-year period if erroneous debts were not transferred.

Usefulness of Debt Letters

DFAS Centers sent debt letters to former Service members that did not clearly identify the causes of the debts. For example, the DFAS Indianapolis Center sent many letters that either did not identify or erroneously identified the cause of a member's debt. Other letters were vague, stating only that the debt was part of a casual payment. Since the debt letters were unclear, Service members requested additional information from the DFAS Centers or their former units.

The DFAS Centers had not established positive controls to enable them to track the status of the inquiries and ensure that the inquiries were answered. Consequently, numerous pieces of correspondence were lost, ignored, or went unanswered for several months. The DFAS Centers did not acknowledge that Service members' inquiries had been received and were being researched, nor did they provide dates when responses could be expected. Thus, Service members became frustrated and made additional inquiries to the DFAS Centers, installations, inspectors general, and their congressional representatives for assistance in resolving the debts. More inquiries to the debt management office resulted, creating further backlogs in answering inquiries.

DFAS's Customer Service and Performance Assessment Deputate conducted a study from February 17 through March 17, 1994, to determine why customers wrote to their congressional representatives for assistance and to examine the causes of their problems. According to the study, 46 percent of congressional inquiries received were due to debts. A significant portion (77 percent) of the debt inquiries resulted from problems at separation. The main causes were late, erroneous, or no separation input, and erroneous separation calculations done at field sites. Lack of timely response was often the reason that customers wrote to their congressional representatives. Personnel assigned to respond to inquiries have had a backlog for some time. The study concluded that if separation guidance and training were provided, congressional inquiries about debts could be reduced by 38 percent.

The DFAS Centers relied on the automated payroll system to determine the causes of debts. Often, the payroll system could not determine the causes, and the DFAS Centers did not intervene manually to determine the causes before sending debt letters. In response to inquiries, debt management personnel at the DFAS Centers often had to conduct extensive research into the debtors' case files to determine why the debts existed and respond to the former Service members. In many cases, the member was not truly indebted; instead, the payroll system had transferred an invalid debt to the DDMS. This process resulted in increased work for debt management personnel, increased administrative costs to research each case, and poor public relations with former Service members, inspectors general, and Congress.

Finding C. Management of Debt Transfer

Conclusions

Changes need to be made in the DDMS and the process used to manage the growing DFAS debt. The DFAS needs to standardize the procedures used to transfer debts to the DDMS. Separation debts must be transferred in a timely manner to improve the collection of money owed to the Government. Procedures are needed to allow finance activities to review debts to determine their causes; this would show error trends for training purposes. Debts should be properly screened to prevent the transfer of invalid debts to the DDMS. Screening would also determine the causes of debts, which could be stated in the debt letters sent to Service members. If the debt letters were clearer, the number of inquiries required to resolve a case would be reduced. If a valid data base were established in the DDMS and debt letters were more accurate, the work load and administrative costs of resolving debt cases would also be reduced.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service:

- 1. Establish a standard method and time period for analyzing closed pay accounts at the Defense Finance and Accounting Service Centers.**
- 2. Develop procedures to make finance activities a key component in analyzing debts. Use the Defense Finance and Accounting Service Centers' separation branches as a backup and to review debts for accuracy.**
- 3. Require finance activities to use error trends as a training tool.**
- 4. Review all out-of-balance accounts and transfer only valid debt cases to the Defense Debt Management System.**
- 5. Revise debt letters to clearly explain to former Service members why they owe the Government money.**
- 6. Establish positive controls over verbal and written inquiries to ensure prompt replies. Immediately acknowledge the receipt of inquiries and provide estimated response dates.**

Management Comments. The Deputy Director for Finance, DFAS, concurred in part with Recommendations C.1. and C.2., stating that DFAS will require all of its Centers to transfer debts to DDMS within 60 days after a Service member separates, and will require the Navy and Marine Corps field sites to transfer separation cases to their respective centers within 3 days after the member separates. DFAS also stated that field activities are already required to analyze

Finding C. Management of Debt Transfer

pay accounts before transferring Service members' debts to one of the DFAS Centers. DFAS will require each Center to provide feedback to field activities so that the field activities can identify the causes of debts. Field activities will be required to state the reasons for overpayments and underpayments, and the corrective actions they have taken to prevent overpayments and underpayments in the future. However, each DFAS Center will continue to perform these functions in the most appropriate manner for that Center.

The Deputy Director for Finance, DFAS, concurred with Recommendations C.3. through C.6. and stated that DFAS was taking corrective actions. He stated that the DFAS Centers at Cleveland, Indianapolis, and Kansas City will be required to include separations as a material internal control weakness. The Deputy Director did not comment on the potential monetary benefits. For the full text of management's comments, see Part IV.

Audit Response. The comments from the Deputy Director for Finance, DFAS, are partially responsive. Regarding Recommendation C.1., we agree with the DFAS plan to transfer debts to the DDMS within 60 days after separation. However, for the DFAS Centers using the JSS and DDMS, DFAS needs to develop a standard process for analyzing and transferring closed pay accounts. Since the DFAS Indianapolis Center and the DFAS Denver Center use the same payroll and debt systems, and the DFAS Cleveland Center will soon use the same systems, a standard process for all three Center would be most beneficial. Specifically, maintaining three distinct systems to perform an identical function is an unnecessary duplication of effort. We ask that DFAS reconsider its position that each Center perform the functions as locally determined rather than standardizing the procedure DFAS-wide.

Regarding Recommendation C.2., we agree in part with the comments of the Deputy Director for Finance, DFAS, concerning the need to develop a method of providing feedback to be used for analysis of debts. However, the DFAS Cleveland Center and the DFAS Kansas City Center need to address the retention of documentation at the field activities so that field activities can analyze overpayments and underpayments. Current procedures require that finance records be shipped within 3 days of separation from the field activities to the DFAS Centers. The field activities should retain some documentation so that they can perform meaningful analysis of debts and submit follow-up corrections immediately to the DFAS Cleveland Center and the DFAS Kansas City Center, where appropriate. Also, as stated above, since three DFAS Centers will be using the same payroll and debt systems, the use of a standard method for transferring and closing pay accounts would aid in analyzing debts and performing trend analysis throughout DFAS. When responding to the final report, DFAS should provide completion dates for all corrective actions. We ask that DFAS address the retention of documentation at field activities. We also request that management provide comments on the internal control weaknesses discussed in Part I and the potential monetary benefits.

Finding C. Management of Debt Transfer

Response Requirements for Recommendations

Responses to the final report are required from the Director, Defense Finance and Accounting Service for the items indicated with an "X" in the chart below.

<u>Recommendation Number</u>	<u>Response Should Cover:</u>			
	<u>Concur/ Nonconcur</u>	<u>Proposed Actions</u>	<u>Completion Date</u>	<u>Related Issues*</u>
C.1.	X	X	X	IC
C.2.	X	X	X	IC
C.3.			X	IC
C.4.				M, IC
C.5.			X	M
C.6.			X	M

*M = monetary benefits; IC = material internal control weaknesses.

Part III - Additional Information

Appendix A. Summary of Valid and Preventable Debts

<u>Location</u>	<u>Total Cases</u>	<u>Reported Debt</u>	<u>Valid Amount</u>	<u>Valid Debt Percent</u>	<u>Preventable Amount</u>	<u>Preventable Debt Percent</u>
<u>Army</u>						
Walter Reed	53	\$ 277,526.28	\$ 37,190.40	13.4	\$ 27,190.61	73.1
Fort Hood	117	426,000.06	103,485.48	24.3	85,440.11	82.6
Fort Lewis	121	290,813.56	62,247.28	21.4	34,214.23	55.0
Total Army	291	994,339.90	202,923.16	20.4	146,844.95	72.4
<u>Navy</u>						
<u>USS Enterprise</u>	44	148,291.44	53,772.55	36.3	17,337.63	32.2
<u>USS Harry S. Truman</u>	36	101,650.85	28,411.31	27.9	22,464.00	79.1
San Diego	56	249,061.29	43,629.81	17.5	16,887.00	38.7
Indianapolis	6	119,611.81	9,873.78	8.3	6,547.00	66.3
Total Navy	142	618,615.39	135,689.46	21.9	63,235.63	46.6
<u>Air Force</u>						
Langley AFB	52	105,606.69	25,261.80	23.9	13,449.24	53.2
Tinker AFB	46	216,479.96	159,999.48	73.9	6,747.78	4.2
Total Air Force	98	322,086.65	185,261.28	57.5	20,197.02	10.9
<u>Marine Corps</u>						
Kansas City	33	7,673.29	7,078.77	92.3	3,911.28	55.3
Camp Pendleton	66	23,888.75	22,018.13	92.2	13,621.77	61.9
Total Marine Corps	99	31,562.04	29,096.90	92.2	17,533.05	60.3
Total Audited	630	\$1,966,603.98 ¹	\$552,970.80 ²	28.1	\$247,810.65 ²	44.8

Appendix A. Summary of Valid and Preventable Debts

- 1 The \$1.4 million of invalid debt (\$1.9 minus \$553,000) was discussed in Finding C.
- 2 \$248,000 out of \$553,000 of the valid debts was preventable and was discussed in Finding A.

Appendix A. Summary of Valid and Preventable Debts

<u>Location</u>	<u>Number of Debts</u>			
	<u>Total Cases</u>	<u>Valid Cases</u>	<u>Partially Valid Cases</u>	<u>Invalid Cases</u>
<u>Army</u>				
Walter Reed	53	35	7	11
Fort Hood	117	87	14	16
Fort Lewis	121	85	13	23
Total Army	291	207	34	50
<u>Navy</u>				
<i>USS Enterprise</i>	44	30	3	11
<i>USS Harry S. Truman</i>	36	16	6	14
San Diego	56	48	1	7
Indianapolis	6	2	0	4
Total Navy	142	96	10	36
<u>Air Force</u>				
Langley AFB	52	42	4	6
Tinker AFB	46	35	7	4
Total Air Force	98	77	11	10
<u>Marine Corps</u>				
Kansas City	33	33	0	0
Camp Pendleton	66	61	0	5
Total Marine Corps	99	94	0	5
Total Audited	630	474	55	101

Appendix B. Duplicate Payments Identified

<u>Local Payments</u>	<u>Cases</u>	<u>Dollar Amounts</u>
Fort Hood, Texas	4	\$11,020.71 458.26 841.13 1,407.74
Walter Reed Army Medical Center, Washington, DC	1	<u>519.27</u>
Total	5	\$14,247.11

<u>Concurrent Payments</u>	<u>Cases</u>	<u>Dollar Amounts</u>
Camp Pendleton California	12	\$ 356.00 892.00 332.26 244.00 251.00 456.00 624.52 624.99 834.99 1,275.00 590.00 <u>280.00</u>
Total	12	\$6,760.76

<u>Posting of Navy Payments</u>	<u>Cases</u>	<u>Dollar Amounts</u>
USS Hunley, Norfolk, Virginia	4	\$ 166.38 1,049.45 261.82 <u>652.12</u>
Totals	4	\$2,129.77

Appendix C. Most Frequent Causes of Debts

<u>Location</u>	<u>Taxes</u>	<u>Lump-Sum Leave</u>	<u>Miscellaneous Debts</u>	<u>Continuation of Pay</u>	<u>Allotments</u>	<u>Bonus Recoupment</u>
<u>Army</u>						
Walter Reed	2	4	10	10	4	1
Fort Hood	5	12	16	49	11	6
Fort Lewis	3	17	23	26	3	13
Total Army	10	33	49	85	18	20
<u>Navy</u>						
<i>USS Enterprise</i>	4	2	0	9	1	7
<i>USS Humpy</i>	2	2	0	1	4	4
San Diego	2	2	4	3	1	5
Indianapolis	0	0	0	0	0	1
Total Navy	8	6	4	13	6	17
<u>Air Force</u>						
<i>Langley AFB</i>	2	2	11	2	0	4
<i>Tinker AFB</i>	3	5	15	4	0	0
Total Air Force	5	7	26	6	0	4
<u>Marine Corps</u>						
Kansas City	3	1	5	3	3	1
Camp Pendleton	8	3	11	21	3	0
Total Marine Corps	11	4	16	24	6	1
Total Audited	34	50	95	128	30	42

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1. through A.3.; B.1. through B.3.	Compliance with public law. Implementation would ensure that overpayments are not made during the separation process.	Up to \$5.9 million of funds put to better use. Funds will be available in FYs 1994-1999 for other personnel uses. ¹
C.1. through C.6.	Economy and efficiency. Implementation would reduce the work load at the DFAS Centers and speed up the collection of out-of-service debts. Also, bad publicity would be avoided.	\$403,000 of funds put to better use for the three Army sites reviewed (Appropriation 97X4930.5L40) in FYs 1994-1999 at DFAS Indianapolis Center. ²

¹This is a 6-year estimate for 11 of more than 700 sites where Service members separate from active duty. The estimate affects these appropriations: Military Personnel, Army (2010), \$3,524,000; Military Personnel, Navy (1453), \$1,518,000; Military Personnel, Air Force (3500), \$485,000; and Military Personnel, Marine Corps (1105), \$421,000. Since about the total amount of debt is increasing by \$80 million each year, much greater monetary benefits may be realized if all sites are considered.

²Greater monetary benefits may be realized if all sites are considered.

Appendix E. Organizations Visited or Contacted

Department of the Army

Office of the Deputy Chief of Staff for Personnel, Washington, DC
III Corps, Fort Hood, TX
I Corps, Fort Lewis, WA
Walter Reed Army Medical Center, Washington, DC

Department of the Navy

Office of the Chief of Naval Operations, Washington, DC
Personnel Support Detachment, *USS Enterprise* (Atlantic Fleet - Naval Air Force),
Newport News, VA
Disbursing Office and Personnel Office, *USS Hunley* (Atlantic Fleet - Submarine
Force), Norfolk, VA
Personnel Support Detachment, Indianapolis, IN
Personnel Support Detachment, San Diego, CA

Department of the Air Force

Office of the Deputy Chief of Staff for Personnel, Washington, DC
1st Tactical Fighter Wing, Langley Air Force Base, VA
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK

Marine Corps

Office of the Commandant of the Marine Corps, Washington, DC
1st Force Service Support Group, United States Marine Corps, Camp Pendleton, CA
Disbursing Office 6167, United States Marine Corps, Kansas City, MO

Defense Organizations

Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Finance and Accounting Service Center, Denver, CO
Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Finance and Accounting Service Center, Kansas City, MO

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
Assistant Secretary of Defense (Force Management)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Deputy Chief of Staff for Personnel
Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Principal Deputy Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff for Personnel
Auditor General, Department of the Air Force

Marine Corps

Commandant, U.S. Marine Corps

Appendix F. Report Distribution

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
 Director, Defense Finance and Accounting Service Cleveland Center
 Director, Defense Finance and Accounting Service Denver Center
 Director, Defense Finance and Accounting Service Indianapolis Center
 Director, Defense Finance and Accounting Service Kansas City Center
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Agency
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
 General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
 Government Operations

Part IV - Management Comments

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR PERSONNEL
300 ARMY PENTAGON
WASHINGTON, DC 20310-0000

REPLY TO
ATTENTION OF



28 October 1994.

MEMORANDUM THROUGH DIRECTOR OF THE ARMY STAFF, *10 Oct 94* ATTN: DACS-ZD, THE PENTAGON, WASHINGTON, DC 20310 *10 Oct 94*
ASSISTANT SECRETARY OF THE ARMY (MANAGEMENT) ATTN: SAFM-ZA, THE PENTAGON, WASHINGTON, DC 20310

FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Draft Audit Report on the Process Used to Separate Military Personnel from Active Duty (Project No. 3FI-0044)

The purpose of this memorandum is to respond to the Department of Defense (DoD) Inspector General (IG) Audit Finding 8 (enclosed), "Prevention of Debts by Unit Commanders and Personnel Activities," recommendations 1, 2a, 2b, 2c, and 3. The personnel community appreciates the opportunity to review and respond to the DoD IG Audit. Our review supports the DOD IG recommendations with the following comments:

a. DoD IG recommendation 1 asks the ADCS PER to "revise administrative procedures to require separation finance offices to be notified of early releases at least two weeks before separation."

COMMENT: Concur. Currently, the personnel community formally notifies the local finance office of pending separations and retirements by means of a military separation order. Our goal is to complete separation orders as soon as practicable after early separation documents are received from the approval authority. Generally, early separations are approved far enough in advance of the separation date to ensure timely coordination with the local finance office. However, the necessary flexibility built into Army early separation programs occasionally results in last minute approvals for some soldiers who may separate within two weeks of the approval.

b. DoD IG recommendation 2a recommends, "ADCS PER direct their unit administrative personnel to notify separating finance activities of short-notice releases within one working day of a commander's decision."

COMMENT: Concur. Generally, the personnel agency responsible for issuing the separation order receives the separation approval from the local Staff Judge Advocate.

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Department of the Army Comments

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Our goal is to issue the separation order as soon as possible after the receipt of the separation approval. Generally, this can occur within one duty day.

c. DoD IG recommendations 2b and 2c ask the ADCS PER to direct their unit administration personnel "to expand the out-processing checklist or clearance records to better identify all outstanding miscellaneous debts (with current dollar balances) and leave transactions for all types of discharges...and, forward the expanded checklist to the separation finance activities."

COMMENT: Concur. It is Army policy to have an out-processing program that enhances the unit commander's efforts in the Army's debt management program. Currently, we are reviewing the Air Force checklist and out-processing procedures mentioned in your report. It is our goal to improve our out-of-service debt rate such that we meet or exceed the DFAS standard of 15%. In our review, we will determine what changes may be appropriate for Army separation out-processing procedures.

d. DoD IG recommendation 3 asks the ADCS PER to "standardize separation procedures by establishing an agreement with the Defense Finance and Accounting Service (DFAS) to authorize direct interfaces between personnel activities and the payroll systems and, where possible direct the personnel activities to notify finance activities of separations at least 90 days in advance, on completion of an initial separation interview."

COMMENT: Concur. The upcoming fielding of automated personnel systems such as the Installation Support Modules (ISM) for Transition Processing (TRANSPROC) and Out Processing (OUTPROC) will greatly enhance timely notification to DFAS for separating and retiring soldiers. At the 28 sites now scheduled for fielding in FY95, a pre-separation transaction will be electronically submitted to DFAS, when the separation order is issued by the personnel community, up to 90 days in advance of separation. This automated capability is a forward leap for the personnel and finance communities and the Army's debt management program.

Increased automation capability and improved timeliness standards within the personnel community cannot solve the problem alone. Additional capability within the DoD finance community may be needed to enable posting to soldiers' Master Military Pay Accounts as late in a pay period as technologically possible. This will reduce erroneous pay to soldiers whose personnel status has changed after the pay period cut off date has passed.

Department of the Army Comments

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The Army is fully committed to the DoD efforts to reduce the out-of-service debt to the U.S. Government. Your recommendations will be studied by the DCSPER Personnel and Pay Interface Working Group. We will continue to review policies and procedures that affect the timeliness and accuracy of pay to our soldiers, and implement appropriate changes.

Wall C. Arnold
WALLACE C. ARNOLD
Major General, GS
Assistant Deputy Chief
of Staff for Personnel

Enclosure

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20380-1000

OCT 5 1994

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL
FOR AUDITING

Subj: DODIG DRAFT REPORT: PROCESS USED TO SEPARATE MILITARY PERSONNEL FROM ACTIVE DUTY, PROJECT NUMBER 3FI-0044

I am responding to your memorandum, TAB A, concerning the process used to separate military personnel from active duty.

The Department of the Navy responses to the draft audit report are provided at TABs B and C. We have carefully reviewed and concur with the draft report's finding and recommendations. The Navy is working with Defense Finance and Accounting Service, Cleveland Center and taking steps within the Department to correct the noted deficiencies.

The Chief of Naval Personnel has directed a complete review of all directives pertaining to separation processing to ensure that recommendations of the audit are incorporated to assist in the debt reduction. New computer reports have been devised to assist in reconciliation of both officer and enlisted accounts, this has given a more accurate picture of disparate accounts and provides improved management oversight and accountability.

Karen S. Heath

KAREN S. HEATH
Principal Deputy Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

TAB A - DODIG memo of 21 July 1994
TAB B - NAVY Comments on Draft Report
TAB C - Marine Corps Comments on Draft Report

Department of the Navy Comments

Navy Comments
on
DODIG Draft Report of 21 July 1994
on
Process Used to Separate Military Personnel from Active Duty
Project Number 3FI-0044

Summary of DODIG findings and recommendations

DODIG found excessive debts were incurred at separation because of inaccurate and incomplete calculation of pay, late notification of pending separations that resulted in the continuation of pay after separation, the existence of prior debts that exceeded the entitlements earned during the month of separation, and early separations caused by the downsizing of the military force. At the sites audited, \$248,000 (45 percent) of the \$553,000 in valid debts could be prevented if DFAS and the Service-operated finance and personnel activities improved procedures for processing separations. Specific findings were:

- Finance activities did not adequately manage the separation process. Numerous mathematical errors were made on separation worksheets, and deductions for unearned bonuses, allotments, and mid- or end-of-month payments were omitted. Duplicate payments were made. Also, Army finance personnel did not enter separation transactions until on or after the separation date. As a result, payments continued after separation, separation calculations did not include key items, and DFAS had to make attempts to recoup separation debts (Finding A).

- Unit commanders and personnel activities that have input during the separation process were not notifying the finance activities of pending separations in a timely manner, and were not promptly providing documentation of events, such as leave or debts, to finance activities. Consequently, the finance activities did not stop payments already in process, or were prevented from using available entitlements to offset debts (Finding B).

- Debts at two DFAS Centers were not transferred promptly from the payroll systems to the debt system, and debts at another DFAS Center were not validated before being transferred to the debt system. The debt letters mailed to former Service members did not clearly explain the debts. As a result, the debt system contained invalid debts, unnecessary debt letters were issued, and debt letters generated additional work when former Service members requested more specific information (Finding C).

DODIG recommended that the finance activities enter separation transactions as soon as a pending separation is known, control payments, and review separation worksheets for accuracy and completeness. They also recommended that personnel activities promptly notify finance activities of pending separations, that

the separation checklist be improved, and that the DFAS Centers review debts for validity before transferring them to the Defense Debt Management System.

Navy Statement

The following comments address findings and recommendations pertinent to Navy.

Finding A: Management of the Separation Process. DODIG found that the Defense Finance and Accounting Service (DFAS) and the finance activities of the Services (the Army, the Navy, the Air Force, and the Marine Corps) did not adequately manage the separation process to ensure that Service members did not leave the Service owing the Government money.

Specifically, excessive debts occurred for several reasons:

- automated controls, which used the separation date recorded in the pay system to stop payments and allotments during the month of separation, were not effective;

- finance activities at Army sites made duplicate separation payments for separating personnel;

- two paying offices at a Marine Corps site made payments for the same entitlements during the month of separation; and

- separation payments were not posted to the master military pay account ; as a result, the DFAS Cleveland Center made duplicate payments to separated Navy Personnel.

Other debts were incurred at separation because of errors in the use of the separation worksheet, and because the Navy used automated separation worksheets that did not include recoupment for the unearned portion of reenlistment bonuses. Also, final payments were accelerated unnecessarily rather than being made during the monthly pay cycle.

Consequently, at the sites audited, separated Service members unnecessarily owed the Government \$248,000 (45 percent) of the \$553,000 in 474 valid debt cases. These debts could have been prevented with changes in procedures; DFAS had to take action to recover these debts.

Navy Response: Concur. See actions taken in response to recommendation 1a, 1d, and 1e. On recommendations 1b, 1c, 1f, and 2, we defer to Director, Defense Finance and Accounting Service.

Recommendation 1a: That Director, Defense Finance and Accounting Service develop a policy that requires finance activities to update automated payroll systems as soon as it is known that members are separating from the Service (regardless of whether

Department of the Navy Comments

the separation is being processed) in order to stop automatic payments.

Navy Response: Concur. Navy will additionally review policy and procedures for areas which do not normally allow for ample time to notify DFAS of unplanned separations by 31 December 1994. Navy will coordinate with DFAS by 30 September 1994 to determine best means of notification and update.

Recommendation 1d: That Director, Defense Finance and Accounting Service revise the separation worksheet process to include:

(1) Reviewing automated worksheets for omitted entitlements, deductions, bonus recoupment, and payments.

(2) Reviewing manually-prepared separation worksheets for accuracy and completeness before making payments.

(3) Expanding the Navy's Forecast Separation Pay Worksheet to include recoupment of unearned reenlistment bonuses.

Navy Response: Concur. Navy will work with DFAS to provide additional direction to the field separation activities. This is an on going Navy and DFAS action.

Recommendation 1e: That Director, Defense Finance and Accounting Service require finance activities operated by both the Defense Finance and Accounting Service and the Services to:

(1) Include automated payments and allotments for the month of separation as deductions from separation payments, unless it can be verified that the automated payroll system has stopped these payments and allotments.

(2) Make deductions for miscellaneous debts if the separation out-processing checklist is not used, or if the finance activity is not informed of the pending separation 2 weeks before the separation date.

(3) Include a contingency deduction to offset potential calculations errors if the automated worksheet was not used or a pay-related transaction was not posted to the pay account.

(4) Discontinue interrupting the normal pay cycle to make special separation payments when an activity has excessive separation debts.

Navy Response: Concur. As in recommendation 1d, Navy will work with DFAS to provide additional direction to the field separation activities. These items will be specifically addressed in the additional direction provided to the field separation activities and if applicable in Navy directives. This is an on going Navy and DFAS action.

Department of the Navy Comments

Finding B: Prevention of Debts by Unit Commanders and Personnel Activities. DODIG found that Unit commanders and personnel activities did not promptly notify the finance activities of pending separations. Also personnel activities did not send all outstanding transactions to the supporting finance activities for posting in a timely manner. These conditions occurred because:

- separation orders for early release did not reach the finance activity for at least 14 days at 5 sites reviewed,
- separation orders for short-notice releases were not prepared for 7 days or more after legal opinions were issued, and
- separation out-processing checklists and clearance records did not contain all necessary payroll information and were not used for all types of discharges.

As a result, Service members received payments after separation, and finance activities could not offset outstanding debts against entitlements.

Navy Response: Concur. See actions taken in response to recommendations 1, 2, and 3.

Recommendation 1: DODIG recommended that the Assistant Deputy Chief of Staff for Personnel, Department of the Army, and the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy, revise their administrative procedures to require that separating finance activities be notified of early release at least 2 weeks before separation.

Navy Response: Concur In-part. Navy will review and revise, as appropriate, all directives involving separation processing to accommodate the recommendations of DODIG. However, the Navy reserves the right to process administrative separations and disciplinary separations resulting from a Courts Martial with less than a two week notice to the finance center. In cases where it is not in the best interest of the Navy or Government to retain the individual to allow for a two week notification, Navy will reemphasize to the field the importance of existing separation procedures and timely submission of separation documents. This will be an on going action item.

Recommendation 2: DODIG recommended that the Assistant Deputy Chief of Staff for Personnel, Department of the Army; the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy; the Deputy Chief of Staff for Personnel, Department of the Air Force; and the Commandant of the Marine Corps (Deputy Chief of Staff, Manpower and Reserve Affairs) direct their unit administrative personnel to:

- Notify separating finance activities of short-notice releases within 1 workday of a commander's decision.

Department of the Navy Comments

b. Expand out-processing checklists or clearances records to better identify all outstanding miscellaneous debts (with current dollar balances) and leave transactions for all types of discharges.

c. Forward the expanded out-processing checklists to the separating finance activities.

Navy Response: Concur. Navy will include these recommendations in the revision of separation directives. Expected completion date is June 1995.

Recommendation 3: DODIG recommended that the Assistant Deputy Chief of Staff for Personnel, Department of the Army, and the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy, standardize separation procedures by establishing an agreement with the Defense Finance and Accounting Service to authorize direct interface between personnel activities and the payroll systems and, where possible, direct the personnel activities to notify the finance activities of separations at least 90 days in advance, on completion of an initial separation interview. Navy will reemphasize the importance of separations procedures and timely submission of separation documents.

Navy Response: Concur In-part. Navy will coordinate with DFAS by 30 September 1994 on the appropriate method of notification and will comply with the 90 day notification except in cases of administrative/disciplinary separations and of first term personnel who do not receive reenlistment disapproval in sufficient time to allow for the 90 day notification. In these cases, Navy reserves the right to continue with the short notice separations for administrative/disciplinary separations and the 30 day rule for first term personnel which are currently used. First term personnel who request reenlistment will be considered for reenlistment up to the expiration of enlistment. If reenlistment approval is not received 30 days before scheduled separation, the finance activity will be notified as if separation will occur. If reenlistment is subsequently approved, appropriate action will be taken to notify the finance activity to continue pay and allowances for the individual. These exceptions are considered necessary and in the best interest of the Navy and Government.

Finding C: Management of Debt Transfer. DODIG found that DFAS personnel were not adequately managing the transfer of debts from the payroll systems to the Defense Debt Management System (DDMS). A review of separation cases at 11 installations showed that about \$1.4 million (72 percent) of the \$1.9 million in debts and 156 (25 percent) of the 630 debt cases identified by the payroll system were invalid. At two DFAS Centers, the transfer of debts was not accomplished in a timely manner, and at a third center, invalid debts for Army members were transferred to the debt system. Debt letters mailed to former Service members did not

correctly explain the causes of the debts. These conditions occurred because:

- the work load at two DFAS Centers delayed the review of separation cases for debt validity;
- finance personnel at the installations did not analyze closed accounts to determine the causes of debts and whether the debts were valid;
- debts at one DFAS Center were not screened for validity before being transferred to the debt system; and
- automated systems could not determine or adequately explain the causes of debts, and manual intervention was not used to determine the causes.

As a result, DFAS experienced significant delays in the transfer and collection of outstanding debts. Army files transferred to DDMS were inaccurate, and erroneous debt letters were sent to former Service members. Resolving inquiries increased DFAS's work load and administrative costs. Also, public relations with former Service members and Congress was adversely affected because of confusing debt letters and inquiries that were ignored or lost.

Navy Response: Concur. See comments regarding recommendations 2 and 3. On recommendations 1, 4, 5, and 6, we defer to Director, Defense Finance and Accounting Service.

Recommendation 2: DODIG recommended that Director, Defense Finance and Accounting Service develop procedures to make finance activities a key component in analyzing debts. Use the Defense Finance and Accounting Service Centers' separation branches as a backup and to review debts for accuracy.

Navy Response: Concur. Currently, the Forecast Separation Pay Computation (FSPC) Report does not inform the field activities of the specific reason an individual was overpaid or underpaid. For training and field debt analysis purposes, we will work with DFAS to provide clarification information to the field. DFAS has provided a Debt Analysis package which contains current reason for over- underpayment on separation. We will continue to work with DFAS to obtain changes in trends which need to be clarified to the field. DFAS has increased the availability of the Forecast Separation Pay Computation, which will allow separation activities who have Master Military Pay Account access to obtain the computation on the same day. This should assist with the short notice separations. This is an ongoing issue for both Navy and DFAS action.

Department of the Navy Comments

Recommendation 3: DODIG recommended that Director, Defense Finance and Accounting Service require finance activities to use error trends as a training tool.

Navy Response: Concur. Navy will incorporate information contained in the DFAS Debt Analysis Package in training. Navy will work with DFAS to incorporate any changes to error trends on a quarterly basis or as necessary. This will be an ongoing action for both Navy and DFAS.

Appendix D: DODIG estimates \$1,518,000 Military Personnel, Navy appropriated funds could be put to better use.

Navy Response: Nonconcur in the \$1,518,000 monetary benefit attributed to the Military Personnel, Navy account. Any reduction to out of service debt resulting from this audit would fit neither the definition of a "savings" nor an "avoidance" since the money tied up in debt is not "lost" but is a "receivable" and should eventually be repaid to the Government.

Department of the Navy Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
WASHINGTON, D.C. 20380-0001

IN REPLY REFER TO

7500/3FI-0044
RFR-10/rfk
16 September 1994

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY (MANPOWER
AND RESERVE AFFAIRS)

Subj: DODIG DRAFT AUDIT REPORT ON THE PROCESS USED TO SEPARATE
MILITARY PERSONNEL FROM ACTIVE DUTY (PROJECT 3FI-0044)

Ref: (a) NCB5 rs DCN 4U150607 of 21Jul94

Encl: (1) Marine Corps comments

1. The reference transmitted the subject audit report for review, and requested Marine Corps comments.
2. The enclosed comments are provided for incorporation into the DON response.

A handwritten signature in cursive ink that reads "Don Callaway".

Don Callaway
By direction of the
Commandant of the Marine Corps

Department of the Navy Comments

MARINE CORPS COMMENTS

on
DODIG Draft Audit Report
on
Process Used to Separate Military Personnel
Project No. 3FI-0044

Finding A. Management of the Separation Process. The Defense Finance and Accounting Service (DFAS) and the finance activities of the Services (the Army, the Navy, the Air Force, and the Marine Corps) did not adequately manage the separation process to ensure that Service members did not leave the Service owing the Government money. Automated controls, which used the separation date recorded in the pay system to stop payments and allotments during the month of separation, were not effective. Finance activities at Army sites made duplicate separation payments for separating personnel. Two paying offices at a Marine Corps site made payments for the same entitlements during the month of separation. Separation payments were not posted to the master military pay account; as a result, the DFAS Cleveland Center made duplicate payments to separated Navy personnel. Consequently, at the sites audited, separated Service members unnecessarily owed the Government \$248,000 (45 percent) of the \$553,000 in 474 valid debt cases. These debts could have been prevented with changes in procedures.

Recommendation 1. "We recommend that the Director, Defense Finance and Accounting Service:

"a. Develop a policy that requires finance activities to update automated payroll systems as soon as it is known that members are separating from the Service (regardless of whether the separation is being processed) in order to stop automatic payments.

"b. Require Army disbursing stations to review their check-writing procedures and enforce the use of internal controls that prevent duplicate payments.

"c. Require the Defense Finance and Accounting Service, Cleveland Center, to verify that unlisted payments have been made before making additional separation payments.

"d. Revise the separation worksheet process to include:

"(1) Reviewing automated worksheets for omitted entitlements, deductions, bonus recoupments, and payments.

"(2) Reviewing manually-prepared separation worksheets for accuracy and completeness before making payments.

"(3) Expanding the Navy's Forecast Separation Pay Worksheet to include recoupment of unearned reenlistment bonuses.

"e. Require finance activities operated by both the Defense Finance and Accounting Service and the Services to:

"(1) Include automated payments and allotments for the month of separation as deductions from separation payments, unless it can be verified that the automated payroll system has stopped these payments and allotments.

"(2) Make deductions for miscellaneous debts if the separation outprocessing checklist is not used, or if the finance activity is not informed of the pending separation 2 weeks before the separation date.

"(3) Include a contingency deduction to offset potential calculation errors if the automated worksheet was not used or a pay-related transaction was not posted to the pay account.

"(4) Discontinue interrupting the normal pay cycle to make special separation payments when an activity has excessive separation debts.

"f. Reduce the Defense Finance and Accounting Service's goal from 15 percent to 5 percent of separating Service members owing the Government money."

Marine Corps Comments. Defer to Director, DFAS. However, the following observations are provided.

Comment re: recommendation 1.a. page 15: If a Marine separates on her/his scheduled separation date, then system processes will automatically terminate the EFT pay option following the last regularly scheduled payday prior to the separation date. Allotments are automatically stopped the last day of the month prior to the separation date. If a Marine separates prior to his/her scheduled separation date, then procedures are in place for the commanding officer to notify the finance officer. Upon notification of the early separation, the finance officer is required to take appropriate action to terminate EFT and allotments. Additionally, the commanding officer is required to report the new separation date into the Marine Corps Total Force System (MCTFS).

Comment re: recommendation 1.d. page 15: A standard separation worksheet PC application is distributed to all Marine Corps finance officers to be used in the computation of the final payment to all separating Marines. This application is periodically updated for changes in pay rates, tax rates, and other changes as required. New versions of the application are distributed when updated. DFAS-KC continually reviews the application to ensure all pay entitlements are considered. Currently, there are plans to revise this application to provide a "what if" capability, and to further provide in FY95 a direct interface with MCTFS.

Comment re: recommendation 1.e. page 15: Instructions are in place directing finance officers to ensure all automated payments and allotments are deducted from separation payments in the event specific payments/allowances have not been automatically terminated. Separating

Department of the Navy Comments

Marines are required to check out of various organizations/offices during normal outprocessing. The format and extent of the checkout checklist may vary from command to command. Recommend changing 1.e.(3) to *"for those separating prior to ECC."* Agree with implementing a contingency deduction to offset potential calculation errors *for those separating prior to ECC.* However, this will result in an additional workload at the central site to effect payment of the residual pay due a Marine.

Comment re: recommendation 1.f. page 16: Reduction of the goal from 15% to 5% of the separating service members owing money may be attainable once the number of members being separated prior to their scheduled separation date is reduced. Many of the debts that occur are for items reported after the service member has been separated and for which the commanding officer and finance officer had no knowledge, when the member was being separated; i.e., transportation checkages; dishonored checks written prior to separation, etc. These types of debts are large contributors to the overall out-of-service debt.

Recommendation 2. "We recommend that the Fiscal Director of the Marine Corps require that information on payments made in the month of separation be provided to the finance separation activity that calculates the separation payment."

Marine Corps Comments. Concur. Procedures are in place to preclude concurrent payments at separation. We will request by 30 September 1994 that the Defense Finance and Accounting Service - Kansas City release a Pay Advisory Notice reiterating master military pay account audit requirements.

Finding B. Prevention of Debts by Unit Commanders and Personnel Activities. Unit commanders and personnel activities did not promptly notify the finance activities of pending separations. Also, personnel activities did not send all outstanding transactions to the supporting finance activities for posting in a timely manner. Separation orders for early releases did not reach the finance activity for at least 14 days at 5 sites reviewed. Separation orders for short-notice releases were not prepared for 7 days or more after legal opinions were issued, and Separation outprocessing checklists and clearance records did not contain all necessary payroll information and were not used for all types of discharges. As a result, Service members received payments after separation, and finance activities could not offset outstanding debts against entitlements.

Recommendation 1. "We recommend that the Assistant Deputy Chief of Staff for Personnel, Department of the Army, and the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy, revise their administrative procedures to require that separating finance activities be notified of early releases at least 2 weeks before separation"

Marine Corps Comments. Not addressed to the Marine Corps.

Recommendation 2. "We recommend that the Assistant Deputy Chief of Staff for Personnel, Department of the Army; the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy; the Deputy Chief of Staff for Personnel, Department of the Air Force;

and the Commandant of the Marine Corps (Deputy Chief of Staff, Manpower and Reserve Affairs) direct their unit administrative personnel to :

- "a. Notify separating finance activities of short-notice releases within 1 workday of a commander's decision.
- "b. Expand outprocessing checklists or clearance records to better identify all outstanding miscellaneous debts (with current dollar balances) and leave transactions for all types of discharges.
- "c. Forward the expanded outprocessing checklists to the separating finance activities."

Marine Corps Comments. Concur in intent. The Marine Corps system currently in place allows for the financial activity to be notified the same day the commander makes the decision to separate a Marine early. As for outprocessing checklists, as noted above the Marine Corps provides a standard separation worksheet PC application to all finance officers to be used in the computation of the final payment to all separating Marines. DFAS-Kansas City continually reviews and updates this application to ensure all pay entitlements are considered. Outprocessing checklists are turned in to the admin office as a Marine exits. The separation would be processed before the checklist could get the financial officer.

Recommendation 3. "We recommend that the Assistant Deputy Chief Staff for personnel, Department of the Army, and the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy, standardize separation procedures by establishing an agreement with the Defense Finance and Accounting Service to authorize direct interfaces between personnel activities and the payroll systems and, where possible, direct the personnel activities to notify the finance activities of separations at least 90 days in advance, on completion of an initial separation interview".

Marine Corps Comments. Not addressed to the Marine Corps.

Finding C. Management of Debt Transfer. DFAS personnel were not adequately managing the transfer of debts from the payroll systems to the Defense Debt Management System (DDMS). A review of separation cases at 11 installations showed that about \$1.4 million (72 percent) of the \$1.9 million in debts and 156 (25 percent) of the 630 debt cases identified by the payroll system were invalid. At two DFAS Centers, the transfer of debts was not accomplished in a timely manner, and at a third center, invalid debts for Army members were transferred to the debt system. Debt letters mailed to former Service members did not correctly explain the causes of the debts. The work load at two DFAS Centers delayed the review of separation cases for debt validity; Finance personnel at the installations did not analyze closed accounts to determine the causes of debts and whether the debts were valid; Debts at one DFAS Center were not screened for validity before being transferred to the debt system; and Automated systems could not determine or adequately explain the causes of debts, and manual intervention was not used to determine the causes.

Department of the Navy Comments

Recommendation 1. "We recommend that the Director, Defense Finance and Accounting Service:

"1. Establish a standard method and time period for analyzing closed pay accounts at the Defense Finance and Accounting Service Centers.

"2. Develop procedures to make finance activities a key component in analyzing debts. Use the Defense Finance and Accounting Service Centers' separation branches as a backup and to review debts for accuracy.

"3. Require finance activities to use error trends as a training tool.

"4. Review all out-of-balance accounts and transfer only valid debt cases to the Defense Debt Management System.

"5. Revise debt letters to clearly tell former Service members the reasons they owe the Government money.

"6. Establish positive controls over verbal and written inquiries to ensure timely replies. Immediately acknowledge the receipt of inquiries and provide estimated response dates.

Marine Corps Comment. Defer to Director, DFAS.

Appendix D. Summary of Potential Benefits. This appendix provides a breakdown of \$6.3 million claimed as potential monetary benefits which may result from the report.

Marine Corps comments. Nonconcur in the \$421,000 monetary benefit attributed to the Military Personnel, Marine Corps account. Any reduction to out of service debt resulting from this audit would fit neither the definition of a "savings" nor an "avoidance" since the money tied up in debt is not "lost," but is a "receivable" and should eventually be repaid to the Government.

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE MILITARY PERSONNEL CENTER
RANDOLPH AIR FORCE BASE TEXAS

19 SEP 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ AFMPC/DPMY
550 C Street West Ste 35
Randolph AFB TX 78150-4737

SUBJECT: Draft Audit Report on the Process Used to Separate Military Personnel
from Active Duty (Project No. 3FI0044)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. Finding A, Management of the Separation Process, is directed to the Defense Finance and Accounting Service (DFAS) and Finance activities of the Services. Finding C, Management of Debt Transfer, is directed to DFAS Centers. The following recommendations respond to Finding B, Prevention of Debts by Unit Commanders and Personnel activities:

RECOMMENDATION #1: Tasking only to Army and Navy.

RECOMMENDATION #2a: Notify separating Finance activities of short-notice releases within one workday of a commander's decision.

RESPONSE: Concur. The Air Force currently has automated short-notice procedures through the Personnel Data System (PDS). Immediately after a commander initiates involuntary action or a member requests early separation, Personnel projects the member for separation in PDS pending approval of the separation. Personnel's projection automatically generates a "Notification of Early Separation" RIP (Atch 1). If the separation request is canceled or disapproved, PDS produces a "Notification of Disapproval/Cancellation of Early Separation" RIP (Atch 2). These RIPs are forwarded to Finance activities within 1 workday. Ultimately, notifying Finance activities of an intended early separation versus waiting until a separation is approved allows Finance activities additional time to review any outstanding debts.

RECOMMENDATION #2b: Expand outprocessing checklist or clearance records to better identify all outstanding miscellaneous debts (with current dollar balances) and leave transactions for all types of discharges.

DR 4233

Department of the Air Force Comments

RESPONSE: Nonconcur. As noted in the report, the Air Force has minor problems in this area primarily because base agencies are already provided a computer generated Projected Departure Roster reflecting members being discharged no later than 30 calendar days before their departure. This allows notified agencies sufficient time to resolve debt collection problems either through the commander or the local Finance office. However, to improve our process, we will modify PDS and revise AFI 36-2102 to identify each agency required to receive the Projected Departure Roster (i.e., AAFES, Education Office, Commissary, Hospital, the Financial Support Office (FSO), etc.) and provide system generated guidance on the use of the Projected Departure Roster. Our instructions will emphasize the importance of the listing and will make each agency responsible for validation as well as provide the separations specialists a management checklist to ensure all applicable agencies are contacted. In addition, agencies will be directed to contact the FSO and commander when there is nonpayment of debt prior to separation. These automated notification procedures will require 100% of the separating populace with outstanding debts to physically outprocess through each applicable agency. Estimated implementation date is May 1995.

RECOMMENDATION #2c: Forward the expanded outprocessing checklists to the separating finance activity.

RESPONSE: Concur. Our revised process stated above will require agencies to forward outstanding debts to the FSO prior to the member's projected departure date.

Our alternative automated procedures will reduce AF debts and will provide optimum customer service for separating/retiring customers. Thank you for the opportunity to provide our comments.

Kenneth E. Roth
KENNETH E. ROTH, Colonel, USAF
Director of Personnel Operations

Attachments:

1. Notification Early Sep RIP
2. Notification Disp/Cancel Early Sep RIP

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

SEP 26 1994

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, INSPECTOR
GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit on the Process Used to Separate Military
Personnel from Active Duty (Project No. 3FI-0044)

The following comments are provided concerning subject audit:

Recommendation A.1.a. Defense Finance and Accounting Service (DFAS) should develop a policy that requires finance activities to update automated payroll systems as soon as it is known that members are separating from the Service (regardless of whether the separation is being processed) in order to stop automatic payments.

Management comments. Concur. DFAS-HQ will promulgate a policy requiring the DFAS field activities to update the military pay system expiration of term of enlistment/expiration of obligated service dates for early separation personnel, immediately upon notification of separation action.

Recommendation A.1.b. DFAS requires Army disbursing stations to review their check-writing procedures and enforce the use of internal controls that prevent duplicate payments.

Management comments. Concur. The DFAS - Indianapolis Center has implemented a Standard Finance System - Redesign (SRD-1) change where check disbursing information automatically updates the DJMS system. This automated check payment update allows the DJMS system to offset any system generated payments and alert personnel who review the member's account that a payment has been made. A similar interface is being built for their overseas activities which use the Disbursing Operations Processing System.

Recommendation A.1.c. Require the DFAS - Cleveland Center to verify that unlisted payments have been made before making additional separation payments.

Management comments. Partially Concur. The DFAS - Cleveland Center separation adjudication process begins once the Master Military Pay Account is updated to reflect separation. If, for any reason the separation adjudicators believe local payments are not posted, they will physically contact the local Navy Disbursing Office or Personnel Support Detachment that separated the member to confirm what payments were made. The DFAS - Cleveland Center will also send a reminder to Navy Disbursing Offices and Personnel Support Detachments that all disbursements must be reported daily.

Defense Finance and Accounting Service Comments

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Recommendation A.1.d. DFAS should revise the separation worksheet to include:

- (1) Reviewing automated worksheets for omitted entitlements, deductions, bonus recoupments, and payments.
- (2) Reviewing manually-prepared separation worksheets for accuracy and completeness before making payments.
- (3) Expanding the Navy's Forecast Separation Pay Worksheet to include recoupment of unearned reenlistment bonuses.

Management comments. Concur. DFAS-HQ will promulgate a policy to require all separation worksheets to be reviewed for completeness, accuracy, and any omitted pay information. In addition, the DFAS - Cleveland Center has issued specific instructions via a Military Pay Advisory and training to ensure unearned bonus recoupments are considered in the separation computation. Finally, the DFAS - Kansas City Center is in the process of reviewing all DFAS/Service manual separation worksheets that are currently used. The best features of each worksheet will be incorporated in one worksheet for all to use.

Recommendation A.1.e. DFAS require finance activities operated by both DFAS and the Services to:

- (1) Include automated payments and allotments for the month of separation as deductions from separation payments, unless it can be verified that the automated payroll system has stopped these payments and allotments.
- (2) Make deductions for miscellaneous debts if the separation outprocessing checklist is not used, or if the finance activity is not informed of the pending separation 2 weeks before the separation date.
- (3) Include a contingency deduction to offset potential calculation errors if the automated worksheet was not used or a pay-related transaction was not posted to the pay account.
- (4) Discontinue interrupting the normal pay cycle to make special separation payments when an activity has excessive separation debts.

Management comments. Nonconcur. It is standard operating procedure to account for any pay or debts known or anticipated at the time the final separation payment is prepared. Finance activities can and should withhold amounts for any anticipated debts. We do not believe that withholding a standard amount of pay for members who have not had their pay calculated by an automated worksheet, or used an outprocessing checklist, is warranted at this

Defense Finance and Accounting Service Comments

Final Report Reference

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time. We believe this policy is consistent and in the spirit of 10 U.S.C., section 1168, which states in part that a member may not be released from active duty "...until his final pay or a substantial part of that pay, is ready for delivery to him or his next of kin or legal representative." At the present time we will continue to monitor the progress that is expected as a result of actions from our DFAS debt avoidance group and recommendations from this audit report. If future separation debt trends do not reverse, more drastic actions, to include this recommendation will be considered.

Recommendation 3.

Recommendation A.1.f. DFAS should reduce the goal from 15 percent to 5 percent of separating Service members owing the Government money.

Management comments. Nonconcur. DFAS currently reports the percentage of service members separating owing the Government money, but has no control for this function. The individual services are responsible for whether or not that service member separates owing the government. The goal should be for the Department of Defense, not for DFAS. DFAS is responsible for reducing the number of debts once separated.

Recommendation B.3. We recommend the Assistant Deputy Chief of Staff for Personnel, Department of the Army, and the Deputy Chief of Naval Operations (Manpower and Personnel), Department of the Navy, standardize separation procedures by establishing an agreement with DFAS to authorize direct interfaces between personnel activities to notify the finance activities of separations at least 90 days in advance, on completion of an initial separation interview.

Management comments. Concur. In the case of our Denver, Cleveland, and Kansas City Centers, automated interfaces between personnel and Finance is the predominate way information is exchanged. There is an effort currently underway between DFAS-HQ, OUSD Personnel and Readiness, DFAS - Indianapolis Center, and the Army Deputy Chief of Staff for Personnel to automate many Army personnel transactions directly to the DDMS system maintained at the DFAS - Indianapolis Center. In addition, we have always supported any automated personnel interfaces with our military pay systems.

Recommendation C.1. DFAS establish a standard method and time period for analyzing closed pay accounts at the DFAS Centers.

Management comments. Partially concur. The DFAS-HQ will require the DFAS - Cleveland and Kansas Centers to require the field activities to transfer separation cases within three days after separation. Furthermore, DFAS-HQ will require each Center to transfer debts to the DDMS no later than 60 days after separation.

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Recommendation C.2. DFAS should develop procedures to make finance activities a key component in analyzing debts. Use the DFAS Centers' separation branches as a backup and to review debts for accuracy.

Management comments. Partially Concur. Field activities are already required to analyze pay accounts before they are transferred to the respective DFAS Centers. However, the DFAS-HQ will require each DFAS Center to provide feedback of separation payments to field activities through command channels within 90 days of separation. Feedback will allow the field activities to analyze separation over/underpayments and identify causes and develop training requirements. Furthermore, DFAS-HQ will direct the DFAS Centers to require field activities to provide reasons the over/underpayments occurred, who caused them, and proposed corrective actions. The DFAS-HQ will require all debts be reviewed for accuracy at the DFAS Centers. However, the DFAS Centers will perform this function in the area that best fits its separation processing organizational structure..

Recommendation C.3. DFAS should require finance activities to use error trends as a training tool.

Management comments. Concur. See reply to recommendation C.2.

Recommendation C.4. DFAS should review all out-of-balance accounts and transfer only valid debt cases to the DDMS.

Management comments. Concur. The DFAS - Indianapolis Center has initiated procedures effective March 1994, to validate all out-of-balance accounts and transfer only valid debts to the DDMS.

Recommendation C.5. DFAS should revise debt letters to clearly tell former Service members the reasons they owe the Government money.

Management comments. Concur. The DDMS is in the process of expanding the debt reason area of the debt notification letter sent to the debtor. This will permit additional space for printing and more clearly explain to the debtor reason(s) for the debt(s).

Recommendation C.6. DFAS should establish positive controls over verbal and written inquiries to ensure timely replies. Immediately acknowledge the receipt of inquiries and provide estimated response dates.

Management comments. Concur. The DDMS system provides individuals with an acknowledgement of their inquiries on the next account statement sent to the individual after receipt of the inquiry. DFAS-HQ will remind all Centers to ensure debt inquiries

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are entered into the DDMS so that acknowledgement is programmatically accomplished.

Potential Monetary Benefits. Partially Concur. We concur with the economy and efficiency potential monetary benefit amounting to \$403,000. However, we believe the potential monetary benefit related to the \$5.9 million savings in the personnel appropriations should be reduced by the 33 percent average collection rate for a total savings of approximately \$4 million.

Internal Controls. Partially concur. DFAS-HQ will require the DFAS - Cleveland, Indianapolis, and Kansas City Centers to include separations as a material internal control weakness.

If you have any questions, our point of contact, Lt Col Rob Watson, may be reached at DSN 332-5275 or Commercial (703) 602-5275.



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Deputy Director for Finance

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